**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MARYLAND**

Michael Beaumont, 3689, Boulevard Neilson Québec (QC), Canada G1W 4T4, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. **Christopher Paucek** c/o 7900 Harkins Road Lanham, MD 20706 (Prince George's County) **Paul Lalljie** c/o 7900 Harkins Road Lanham, MD 20706 (Prince George's County) **Matt Norden** c/o 7900 Harkins Road Lanham, MD 20706 (Prince George's County) Defendants.	Case No. 8:24-cv-01723-DLB **AMENDED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS** **DEMAND FOR JURY TRIAL**

I. INTRODUCTION

1. Lead Plaintiff Peter Gysbers ("Lead Plaintiff"), brings this federal class action under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act"), and Rule 10b-5 promulgated thereunder, on behalf of all persons and entities that purchased or acquired publicly traded securities of 2U, Inc. ("2U") during the period from February 9, 2022 through February 14, 2024, inclusive (the "Class Period"), and who were damaged thereby. The Exchange Act claims are brought against Christopher Paucek ("Paucek"), Paul Lalljie ("Lalljie"), and Matt Norden ("Norden") (Paucek, Lalljie, and Norden are referred to herein as the "Individual Defendants"). 2U filed for Bankruptcy on or about July 24, 2024 and accordingly was terminated as a Defendant on August 22, 2204

2. Lead Plaintiff, individually and on behalf of all others similarly situated, by and through his attorneys, alleges the following upon information and belief, except to those allegations concerning Lead Plaintiff, which are alleged upon personal knowledge. As to all other matters, Lead Plaintiff makes the following allegations upon the investigation of counsel, which included, without limitation: (a) review and analysis of public filings made by 2U and other related parties and non-parties with the SEC; (b) review and analysis of press releases and other publications disseminated by 2U and other related non-parties; (c) review of news articles and shareholder communications; (d) review of other publicly available information concerning 2U and related non-parties; and (e) interviews with factual sources, including former 2U employees.

3. Lead Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

II. NATURE OF THE ACTION AND OVERVIEW

4. Throughout the Class Period, Defendants presented investors with a story of growth and possibility. 2U is an online education platform company which operates through two segments, the Degree Program and the Alternative Credentials segment. The Degree Program delivers content, in partnership with established colleges and universities ("Partner Institutions") to students seeking online undergraduate or graduate degree. The Alternative Credential segment offers online open courses, boot camps, and micro-credential programs, sometimes in association with Partner Institutions, for shorter duration and lower-priced non-degree offerings.

5. By 2021, 2U had seemingly established a leading position in the emerging online education market. It built longstanding relationships with prestigious universities, notably the University of Southern California, which had been a Partner Institution since 2009. Its relationships with Partner Institutions were secured by long-term contracts lasting five or ten years with no option for termination for convenience. While 2U incurred significant costs at the outset of a Degree Program or other course to create educational content, 2U would then share tuition revenue for the remainder of the contract term. Many of the 2U online courses generated substantial tuition fees, as high as $120,000, of which 2U received up to sixty percent.

6. 2U's business seemed to be tailormade for the post-COVID world. The COVID-19 pandemic accelerated the shift to online learning, as many individuals worldwide enrolled in online education programs when they were unable to attend in person classes, work, or engage in social events—enrollments in Degree Programs increased 21% from December 2019 to December 2021, reaching a peak of 237,245.

7. In November 2021, 2U acquired the non-profit edX platform from Harvard University and the Massachusetts Institute of Technology. The edX acquisition was supposed to provide 2U with a much broader reach and a single integrated platform to make its Partner Institutions' offerings available to learners around the world. 2U touted the expected post-merger boost in total available market and return on invested capital—a considerable $800 million, $475 million of which consisted of short-term financing. 2U promised investors that it would leverage edX's "strong brand equity" — from "initial marketplace experience through the student lifecycle." The nonprofit's "geographic footprint" would enable 2U to expand its "addressable market," which it pegged at $7.3 trillion.

8. However, by late 2021 enrolments in 2U online programs began to decline significantly as potential students increasingly chose on-campus learning over online courses. Further, widespread negative publicity about the high cost of 2U online courses and the often-poor salaries earned by their graduates further reduced demand for 2U programs. Partner Institutions also objected to the high percentage of revenue payable to 2U under their contracts and the quality of courses provided.

9. Accordingly, as corroborated by several former employees, 2U's business, including its most profitable product line, the Degree Program, was facing terminal decline as issues with edX arose and its Partner Institutions sought to terminate their long-term contracts. Also, 2U's new business plan to transition to a platform company led to a decrease in full course equivalent enrollments that could not be made up with new product lines.

10. Partner Institutions and their students both had concerns about revenue-sharing agreements, program quality, and cost. Partner Institutions were no longer planning to start new programs with 2U, were preparing to move online education programs in-house, or were re-

negotiating contracts either to get out of them, to reduce the term of the agreements, or transition away from the revenue-sharing model to a more flexible subscription-based model.

11. 2U's edX platform was not capable of providing the results it promised for either the Degree Program or Alternative Credential segments. Multiple former employees cited issues with the platform, one noting that it was "really rough at the start." EdX had been comprised of just "a small team" that lacked resources. It was costly to put 2U's Alternative Credential programs on the new platform, which led 2U to limit its "bootcamp" offerings. More broadly, it had been difficult for the Partner Institutions to distinguish themselves amongst all the different offerings on the edX platform. The platform contained too many schools and did not clearly allow prospective students to find specific programs. The edX platform also led to a poorer quality of prospective students who were not interested in any paid programs, let alone able to qualify for the lucrative Degree Programs.

12. The truth about Defendants' fraud was revealed in a series of partial corrective disclosures and the materializations of concealed risks that occurred between November 2023 and February 2024.

13. On November 9, 2023, after the market closed, 2U announced that USC—its oldest and largest partner— would wind down their 15-year collaboration in 2U's major programs, and that USC would pay approximately $40 million in connection with this exit. 2U also announced it would recognize a total of $88 million in the fourth quarter related to partners seeking a negotiated exit from certain degree programs, which 2U euphemistically referred to as "portfolio management activities." 2U disclosed these portfolio management activities would offset a 21% decrease in full course equivalent enrollment, which was primarily driven by "the impact of [its] transition to a new marketing framework in mid-2022." 2U also revealed fiscal quarterly results, showing

Degree Program revenue was flat year over year, that total revenue had decreased 1%, and that the Alternative Credential Segment revenue decreased 3%. 2U further disclosed that based on executed portfolio management activities and the company's expectations for additional portfolio management activities in the fourth quarter of 2023, the company expected cash from portfolio management to be approximately $145 million over the next 12 to 24 months

14. On this news, 2U's share price fell $1.35, or 56.72% to close at $1.03 on November 10, 2023, on unusually heavy trading volume.

15. On February 12, 2024, after the market closed, 2U disclosed that due to its debt, "there is substantial doubt about its ability to continue as a going concern." 2U further disclosed it recognized $88.0 million of revenue from portfolio management activities (*i.e.*, fees negotiated for early partnership contract termination) in the year and it would assume another $10 million from such activities in the first quarter of 2024 and at least $15 million in full-year 2024. 2U also announced its full year revenue of $946 million, significantly missing the Company's guidance of $965 million to $990 million, and revealed Degree Program Segment revenue, Alternative Credential Segment Revenue, and total revenue, all decreased 2% year over year. 2U also issued full year 2024 guidance, estimating revenue would continue to decline from $946 million, to $805 million to $815 million. 2U also disclosed that as of December 31, 2023 and December 31, 2022, the Company had balances of $68.2 million and $6.4 million of unbilled revenue associated with portfolio management activities. In other words, termination payments with Partner Institutions increased 10-fold between 2022 and 2023.

16. On this news, 2U's share price fell $0.55 or 59.33%, to close at $0.37 on February 13, 2024, on unusually heavy trading volume.

17. Finally, on July 24, 2024, 2U filed for Chapter 11 bankruptcy protection with a voluntary packaged deal with its largest lenders. Wiping out investors' equity in the company, this strategic move aimed to restructure 2U's considerable debts—reducing them by over 50% from approximately $918 million to $459 million—inject new capital and extend its loans. 2U blamed "unforeseeable challenges" for its failure. On September 13, 2024, 2U announced that it had emerged from Chapter 11 as a private company.

18. Far from the result of unforeseen challenges preventing 2U from realizing the expected benefits from the acquisition, the causes of 2U's bankruptcy were the numerous undisclosed risks that Defendants hid from investors. Furthermore, as 2U veered towards bankruptcy, the Individuals Defendants realized millions in proceeds from stock sales during the Class Period. Defendant Paucek also was awarded a lucrative consulting contract upon his resignation as CEO a week after the first alleged corrective disclosure. And shortly after the Class Period, Defendants Lalljie and Norden were awarded retention bonuses in the amount of $2.3 million and $1.2 million respectively. 2U's shareholders received nothing.

19. Throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors that: (1) the Company was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) the Company's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources; and (5) as a result of the foregoing, Defendants' positive

statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

20. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the 2U's securities, Lead Plaintiff and other Class members have suffered significant losses and damages.

III. JURISDICTION AND VENUE

21. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

22. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

23. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the dissemination of materially false and/or misleading information, occurred in substantial part in this Judicial District. In addition, the Company's principal executive offices are in this District.

24. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

IV. PARTIES

25. Peter Gysbers was appointed to serve as Lead Plaintiff in this action by Order of this Court dated September 9. 2024. ECF 30. As set forth in his Certification previously filed with the Court on DATE (ECF 12-3), Lead Plaintiff purchased 2U common stock at artificially inflated prices during the Class Period.

26. Defendant Christopher Paucek ("Paucek") was the Company's co-founder and Chief Executive Officer ("CEO") from 2012 until November 16, 2023.

27. Defendant Paul Lalljie ("Lalljie") was the Company's Chief Financial Officer ("CFO") from October 16, 2019 until November 16, 2023, and has subsequently served as the Company's CEO since November 16, 2023.

28. Defendant Matt Norden ("Norden") has served as the Company's dual Chief Legal Officer ("CLO") and CFO since November 16, 2023.

29. Former Defendant 2U is incorporated under the laws of Delaware with its principal executive offices located in Lanham, Maryland. 2U's common stock traded on the NASDAQ stock market under the symbol "TWOU." Based on 2U's bankruptcy filings, it maintains approximately $6,600,000 in liability insurance for its directors and officers across several primary, excess, and tail policies.

30. Defendants Paucek, Lalljie, and Norden, because of their positions with 2U, possessed the power and authority to control the contents of the Company's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. The Individual Defendants were provided with copies 2U's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because

of their positions and access to material non-public information available to them, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

31. As a public company, 2U was subject to the disclosure obligations imposed by the SEC pursuant to the Exchange Act.

32. Item 7 of Form 10-K and Item 2 of Form 10-Q require SEC registrants to furnish the information called for under Item 303 of Regulation S-K [17 C.F.R. §229.303] ("Item 303"), Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). Among other things, Item 303 required that 2U's Class Period Forms 10-K and 10-Q disclose known trends or uncertainties that had, or were reasonably likely to have, a material impact on its revenues or income from continuing operations.

33. In 1989, the SEC issued interpretative guidance associated with the requirements of Item 303 concerning the disclosure of material trends or uncertainties.

34. In 2003, the SEC issued additional interpretative guidance relating to the requirements of Item 303. Such guidance states, in pertinent part:

> We believe that management's most important responsibilities include communicating with investors in a clear and straightforward manner. MD&A is a critical component of that communication. The Commission has long sought through its rules, enforcement actions and interpretive processes to elicit MD&A that not only meets technical disclosure requirements but generally is informative and transparent.

35. In addition, Item 1A of both Form 10-K and Form 10-Q requires SEC registrants to furnish the information called for under Item 105 (formerly Item 503) of Regulation S-K [17

C.F.R. §229.105], Risk Factors ("Item 105"). Item 105 required that 2U's Class Period Forms 10-K and 10-Q disclose the most significant matters that make an investment in 2U risky.

36. Specifically, Item 105 requires registrants to:

> Where appropriate, provide under the caption "Risk Factors" a discussion of the most significant factors that make an investment in the registrant or offering speculative or risky. This discussion must be concise and organized logically. Do not present risks that could apply generically to any registrant or any offering. Explain how the risk affects the registrant or the securities being offered. Set forth each risk factor under a subcaption that adequately describes the risk. . . . The registrant must furnish this information in plain English.

V. SUBSTANTIVE ALLEGATIONS: The Rise and Fall of 2U, Inc. from EdTech Titan to Chapter 11 Bankruptcy- A Trojan Horse of Debt, Mismanagement, and Scandal.

A. 2U: An Early Leader in Online Education

37. 2U, a formerly publicly traded company, is an education technology business whose stated objective is to work with Partner Institutions to take their classes online and make high online learning accessible, scalable, and sustainable.

38. 2U was founded in 2008 by John Katzman, the co-founder of the Princeton Review, along with Defendant Paucek and Jeremy Johnson. The company's first partnership was with the University of Southern California in 2009, launching an online teaching degree. In 2010, 2U partnered again with USC to offer a degree in social work. 2U continued to grow, partnering with Georgetown University's School of Nursing and Health in 2011 and the University of North Carolina's Kenan-Flagler Business School to offer an online MBA program.

39. 2U went public in March 2014, raising $119 million by offering 9.2 million shares at $13 per share. The company expanded its offerings in 2017 by acquiring GetSmarter for $103 million and in 2019 by acquiring Trilogy Education for $600 million. These firms offering short-

term non-credit training programs. In 2017, 2U generated more than half its revenue from the University of Southern California, Simmons College in Boston, and the University of North Carolina. The stock price ballooned to a high of $98.58 by 2018 as demand increased for the company's online education offering. At its peak, 2U had a market cap of more than $5 billion.

40. For a time, 2U found success operating through two segments, the Degree Program, and the Alternative Credentials segment. The Degree Program delivers content, in partnership with established colleges and universities, to students seeking an online undergraduate or graduate degree. The Alternative Credential segment offers online open courses, boot camps, and micro-credential programs, also in partnership with colleges and universities, for shorter duration and lower-priced non-degree offerings.

41. The Degree Program was enabled by the Department of Education's guidance. The Higher Education Act of 1965 prohibits "incentive compensation" for securing student enrollment or financial aid, with just one exception: recruiting international students. Admissions recruiters cannot earn bonuses for boosting enrollment because it shifts the focus from student welfare to profit, pressuring them into programs they may not be suited for. However, the Department of Education set the stage for a boom in this "ed tech" industry in 2011 by allowing for third-party online-program managers ("OPMs") to work with colleges and Universities.

42. This clarification came after a meeting between Defendant Paucek and Secretary of Education Arne Duncan to lobby for the exception of OPMs. Paucek brought along a dean from the Georgetown nursing program to help make the case.

43. The following Federal guidance allows OPMs to bypass the ban if they offer colleges additional services beyond recruitment, such as marketing or course design. This "bundled services" exception enables colleges to pay OPMs based on student recruitment through

tuition share agreements. While the law still prohibits paying bonuses or commissions to recruiters for securing enrollments, the OPM for-profit business model relies on revenue-sharing with nonprofit universities in exchange for bundled services provided to students and the institution. These services typically include course development, marketing, recruiting, admissions, enrollment, and advising. OPMs often take a large cut of the tuition, sometimes up to 80%.

44. 2U, Inc.'s Degree Program was designed to profit from this loophole and used a revenue sharing model where it typically took 60% of tuition fees from Partner Institutions.

45. One of 2U's key metrics for its business was the Full Course Equivalent ("FCE"). 2U defined FCE as the total number of courses taken across its partner programs. This metric aggregates all individual course enrollments, regardless of whether students are full-time or part-time, providing a standardized way to measure and report enrollment activity in its online education programs

46. FCE enrollments measure for each of the courses offered during a particular period by taking the number of students enrolled in that course and multiplying it by the percentage of the course completed during that period. 2U adds the FCE enrollments for each course within each segment to calculate the total FCE enrollments per segment. This metric allows 2U to consistently view period-over-period changes in enrollments by accounting for the fact that many courses we enable straddle multiple fiscal quarters.

47. FCE was directly correlated with enrollments and revenue. The average revenue per FCE enrollment represents the weighted-average revenue per course across the mix of courses being offered during a period in each of 2U's operating segments. This number is derived by dividing the total revenue for a period for each of our operating segments by the number of FCE enrollments within the applicable segment during that same period.

B. USC and 2U: Leading the Charge in Online Education

48. The University of Southern California was 2U's most important customers and the cornerstone of its Degree Program. 2U entered highly publicized and initially successful partnerships with USC's Rossier School of Education in 2009 and the USC Dworak-Peck School of Social Work in 2010. Both programs delivered rapid enrollment growth in online programs. The partnership between USC and 2U was a close one, with 2U and its founders funding chaired professorships and faculty research grants in both schools. Multiple other USC schools followed suit. By 2011, USC established a master agreement used by schools partnering with 2U that included a term of up to 10 years and apportioned tuition streams into a maximum 65-percent share for 2U and 35-percent portion for USC.

49. In 2015, 2U and USC extended its contract by an additional 10 years. The contract for the Master of Social Work and the Master of Science in Nursing were to end in 2030. At the time, USC trained roughly five percent of the nation's new professional social workers. The University of Southern California's School of Social Work ranked among the top accredited social work graduate programs in the United States. USC is dedicated to reinventing the profession, furthering knowledge and changing social institutions locally, nationally and globally. The school has made innovations as a signature feature of its academic and research enterprise, leveraging technology in social work education, clinical practice, research and community development, as evidenced through the creation of an advanced online platform for distance learning. The program included students from 49 states and the District of Columbia, and 14 foreign countries. In addition to online coursework, by 2015 students completed more than 3.1 million hour of cumulative field work.

50. In 2016, 2U announced that it extended its contract with USC's Rossier School of Education by an additional 12 years. This contract extended the program to 2030, encompassing the Master of Arts in teaching, Master of Arts in Teaching-TESOL and Doctor of Education in Organizational Change and Leadership. USC Rossier is one of the world's premier centers for graduate study in urban education. For more than a century, the school has been preparing educational leaders to effect positive change and create learning environments in which all students can succeed. The school works with more than 5,500 placement partners in all 50 states and 59 countries around the world, and is continually adding more to ensure every student is placed in a school in their community that is dedicated to excellence in teacher preparation.

51. USC charged steeply for these courses. In 2021 alone, the cost of a two-year online social-work master's program reached approximately $115,000. Despite never stepping foot on campus, students were forced to pay the same rate for online classes as their in-person colleagues. As a result, USC students were often burdened by extreme debt, forcing them to take out massive amounts of student loans, without any legitimate repayment opportunities.

52. USC is not the only one. Other prestigious universities such as Northwestern University ("Northwestern"), New York University ("NYU"), Georgetown University, and the University of North Carolina at Chapel Hill also signed long term contracts. Like USC, Northwestern and NYU students were burdened with high tuition costs, with their universities charging $120,000 and $117,000, respectively, for an online counseling degree.

53. One company profited the most from these high tuition costs: 2U. USC's social-work school was contractually required to share about 60% of its revenue with 2U. By increasing yearly tuition costs, schools were able to admit more students with lower grade point averages,

expand their class sizes, and ultimately make more profit. And, when the schools made more profit so too did 2U.

54. The long-term contracts and high tuition costs charged by prestigious universities were seen as highly significant by 2U investors. As Baird Equity Research wrote in a July 28, 2022 research note:

> **Long-term contracts, high net promoter scores, and non-renewal penalties for clients.** 2U enters into long-term contracts with its NFPCU [non-for-profit colleges and universities] partners, which typically include initial 10-15 year contract terms. Contracts do not include termination rights for convenience, and the company's 10-year contracts impose damages should the NFPCU partner decide to not renew (typically two years revenue). 2U also regularly conducts a Net Promoter Score survey to gauge customer loyalty and satisfaction, and student responses have reflected very impressive results that are on par with other leading consumer tech services companies. The company's student retention metrics have also been impressive, rivaling on-ground programs at leading non-profit universities and colleges. We believe this puts 2U in a strong negotiating position at (or ahead of) contract renewal given that the NFPCU partner would have both a financial penalty and arguably even more importantly, significant disruption and risk should they consider attempting to transition their online programs from 2U to another third-party enabler partner, or bring them fully in house. Consequently, we believe that 2U's revenue share percentage will be largely sustainable.
>
> **Early-mover advantage and brand halo from established position partnering with prestigious colleges and universities.** 2U has a notably prestigious client base, especially considering the historical risk appetite in its market served, especially for the types of solutions that it provides. Simply put, there has historically been significant resistance at NFPCUs to offering fully online degrees, and we believe that historical resistance has typically been especially prevalent at more prestigious NFPCUs. Hence, 2U's initial in-roads into this market are significant, and we believe the importance of its in-roads is not fully appreciated by some members of the investment community, given a lack of understanding of the selling process in this market. Namely, 2U sells into a shared governance environment, in what we would generally describe as a risk averse "industry." Consequently, 2U's position in the market including its impressive list of prestigious NFPCUs and their

> positive view of 2U as a partner are a tremendous advantage for penetrating net new NFPCUs.

55. During the COVID-19 pandemic, 2U's model seemed very successful. Enrollments in 2U Degree Programs increased 21% from December 2019 to December 2021, reaching a peak of 237,245.

C. 2U Acquires edX and Transitions to a Platform Company

56. On November 16, 2021, 2U acquired edX, one of the world's most comprehensive "free-to-degree" online learning platforms, reaching over 40 million learners globally. Founded by Harvard and MIT in 2011, edX was a nonprofit provider of massive, open online courses ("MOOCS"). With edX, 2U could reach a global audience and lower advertising costs by promoting all of its offerings on a single platform.

57. 2U secured $475 million in short-term financing to buy edX, but by the time the $800 million transaction closed in November 2021, borrowing was getting more expensive.

58. Developing the edX Platform meant transitioning away from the OPM model to a flexible model. 2U sought to leverage an industry-leading platform, to offer degrees, boot camps, professional certificates, and free courses, all in one place and easily accessible to millions of learners around the world.

59. In 2022, 2U updated its model to offer more flexibility to Partner Institutions. The models start with a Core Degree Bundle at a 35% revenue share, which includes program design, management, marking, and student support. Universities can add additional services for higher revenue shares, such as enhanced marking, content development, and specialized support. 2U also began to offer revenue sharing points for tuition reduction to encourage new and existing Partner Institutions to lower the cost of their online degree programs. The higher the tuition, the more

expensive it was for 2U to market a program and attract students. As tuition increased, demand decreased, which led to higher marketing costs for 2U under the partnership model.

60. As part of the transition, 2U formed two councils of Partner Institutions. These include the University Leadership Council (ULC) comprised of presidents, provosts, and chancellors from nonprofit colleges and universities within 2U and edX's global network of 230+ institutions, as well as the University Partner Advisory Council (UPAC) comprised of academic leaders who are responsible for their institution's digital transformation and online education strategy.

61. 2U established the University Partner Advisory Council, or UPAC, in 2022 for the express purpose of collecting feedback and ideas from partners. The councils were advisory in nature and met on a range of relevant topics of shared interest among 2U and edX and its network of international partners. 2U also established the UPAC to understand and respond to the perspectives of its academic and corporate partners. This was key to the company's strategy to deliver high-quality and career-relevant learning at scale.

62. Defendants heralded edX as a revolutionary platform that would improve 2U's business. The FY 2021 Press Release touted the Company's "transformational acquisition of edX in the fourth quarter," stating in relevant part that, "*the addition of edX and our transition to a platform company, we have established a strategic and financial framework for achieving our mid-term goals and creating shareholder value.*" On the February 9, 2022 earning's call, Defendant Paucek told investors that, "this industry-redefining combination, we've expanded our company to become one of the world's most complete online learning platforms and have gained a powerful driver of profitable growth and margin improvement." In September 2022, he told investors that 2U's, "platform is building a large and durable mode to competition by putting 2U's engine under

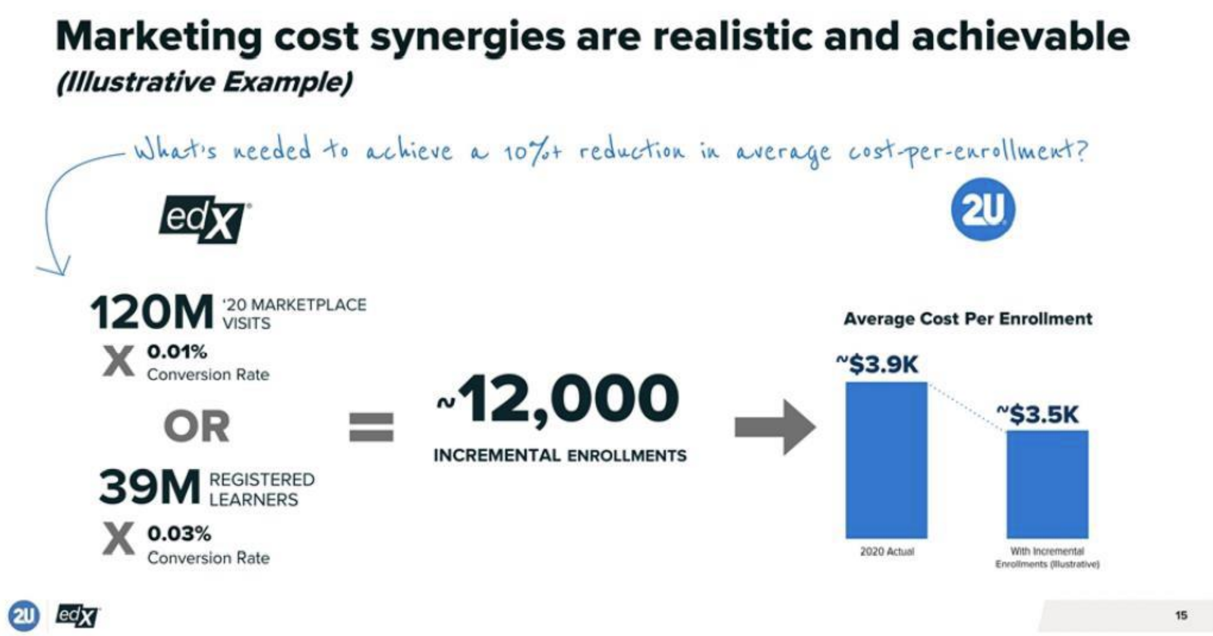
the hood of edX to create the most powerful online learning platform on the planet. It creates a flywheel in a virtuous cycle with partner and content growth or supply driven by learner growth or demand. We start with the world's most comprehensive free-to-degree portfolio, effectively matching learners with content to drive the flywheel."

63. Again, financial analysts were impressed by 2U and edX. In a research note dated November 21, 2022, Credit Suisse stated:

> We think edX's domain priority coupled with 2U's program reach and marketing prowess has the potential to monetize a large ecosystem of learners that have high purchase intent, creating a significant opportunity at a potentially low cost.

64. Credit Suisse continued in the same note:

> The ultimate goal of these efforts is to continue driving high volumes of organic traffic to the edX platform from multiple onramps in order to convert even a fraction of the prospects. Upon announcing the acquisition in June 2021, 2U provided an illustrative example of how edX's scale coupled with 2U's marketing genius could potentially unlock thousands of conversions and higher student engagement.



65. Credit Suisse also continued to stress the importance of 2U's long-term contracts that it had signed with its Partner Institutions:

> We would also argue that 2U's existing partner school ecosystem represents an additional derivative growth driver: a very large content creation network which edX can market to its website visitors and registered learners. The 5–10-year duration partner school degree program agreements are critical to 2U but serve as the lifeblood of the universities as well; both parties are deeply incented to increase the digital presence of the school. There's an element of cross pollination that we expect to unfold, whereby the promotional efforts for one university may inadvertently drive traffic to another university's programs or even different course formats on the edX platform. We believe this flywheel hasn't started spinning fully yet but could prove to be powerful in time.

D. Trouble in Paradise For 2U and its Partner Institutions.

1. USC

66. *The Wall Street Journal*'s 2021 article, published November 9, 2021 as 2U was about to close the edX acquisition, titled "USC Pushed a $115,000 Online Degree. Graduates Got Low Salaries, Huge Debts," highlights the financial struggles faced by graduates: high costs and aggressive recruitment tactics, particularly targeting low-income and minority students. Because of 2U's existing contract with USC, students saw online tuition costs balloon to approximately $115,000 per year, matching the cost of in-person classes. USC was also able to admit more students to the online program even if these students would not have previously been admitted prior to the school's agreement with 2U. As a result, USC students graduating from the online social-work program were largely strapped with student loan debt and a job market with not enough open positions. This over-admit, over-charge scheme became commonplace for USC and was directly enabled by its contract with 2U.

67. Such actions have drawn scrutiny from consumer advocates and lawmakers and underscores the detrimental impact of 2U's practices. The decision by USC to terminate the partnership and assume control over the online programs, along with the $26 million payment to 2U, is a direct consequence of 2U's misconduct.

68. USC's online MSW program has faced significant scrutiny and legal challenges. In May 2023, graduates of the program filed a class-action lawsuit against the university, alleging misrepresentation and false advertising. The class action takes issue with:

a. Program quality: The lawsuit claims that the online program was inferior to the on-campus version, despite being marketed as "exactly the same"

b. Outsourcing: Substantial aspects of the program were allegedly outsourced to 2U, a for-profit education technology company

c. Cost: Both online and in-person programs charged the same tuition and fees, exceeding $100,000

d. Enrollment growth: The program grew from 300 students to over 3,000, primarily due to online enrollment

e. Debt-to-earnings ratio: the 2021 Wall Street Journal investigation found that graduates had one of the worst debt-to-earnings ratios in the country

f. Targeting practices: The lawsuit alleges that USC and 2U targeted students of color and veterans with aggressive recruitment tactics.

2. Arcadia University

69. Also in 2022, issues between 2U and Arcadia University came to light. As reported in the Chronic of Higher Education, former professors accused 2U of trying to turn the University's hybrid physician assistant program into a "cash cow." In Arcadia's case, the program cost nearly $99,000 per student and pursuant to its contract, 2U was to receive 62.5 percent of tuition revenue during the course of the 15-year contract.

70. "They made it obvious that they didn't care about the quality of the program," said one former professor. The resignations came several months after the accreditor's virtual site visit to evaluate Arcadia's fledgling hybrid physician-assistant program. "[2U] did not do what they were told they had to do," the professor told *The Chronicle*. "They just didn't. Period." Email records and recorded staff meetings show that Arcadia faculty members repeatedly complained that 2U had ignored their input — and those warnings grew more dire as the accreditor's visit drew near.

71. When Arcadia's accreditation troubles began, the hybrid program's entering class of 25 students was forced to delay its start date. But as the problems mounted, the university had no clear target date for achieving accreditation, and Arcadia administrators eventually informed the students that they would need to find another university to attend.

72. By aggressively recruiting students to programs without sufficient capacity, 2U and its partner universities created false hope and submitted false promises to students across the country, and specifically, low-income and minority students. In furtherance of this predatory scheme, 2U and partner universities make bold claims about the quality of education and post-graduation employment practices, few of which modeled reality.

3. University of Oregon

73. Similarly, the University of Oregon partnered with 2U to create an online training program called a "boot camp" which was offered by the University's continuing-education division. Christina Denkinger, one of the students of this continuing-education program noted that she received an email from an individual using a "uoregon.edu" email from someone who identified themselves as an admissions advisor for the boot camp. The email contained the University of Oregon's logo and did not mention 2U. As a result, Denkinger paid nearly $12,000 to enroll in the program.

74. As Denkinger noted: "The only reason I signed up for this boot camp was because of the reputation of the university." Little did she know that the course program was not run by the University of Oregon, but rather by 2U. 2U provided the instructors and course materials, leading the way on the boot camp.

75. Similarly to the partnerships with USC and other colleges, 2U earned a significant portion of the revenue from the program run with the University of Oregon. 2U earned

approximately 80% of the tuition from the program which amounted to more than one million dollars in revenue.

4. University of California Berkeley

76. In 2013, the University of California Berkeley ("Berkeley") entered into a 15-year partnership with 2U to create an online master's degree program focusing on information and data science. As part of the partnership, 2U received approximately $39,000 of the $63,000 that Berkeley charged for each of the first 499 full-time students enrolled in the program. The number of students in the program fluctuated, but the share of revenue earned by 2U did not. The tuition cost for the online program has now ballooned to approximately $76,000.

5. University of Central Florida

77. The University of Central Florida ("UCF") had a similar experience with 2U. Like the University of Oregon, UCF partnered with 2U for an online, continuing education program. The tuition program was $11,995, the same amount as the tuition at the University of Oregon. Students in the UCF program were misled to believe that the University was operating the program. Instead, students received instruction and curriculum provided by 2U, not university faculty. Despite promises to be a "workforce accelerator" students at the UCF program remain strapped with student loan debt and career challenges after leaving the program.

6. George Washington University

78. George Washington University partnered with 2U to provide a similar boot camp for its students, focused on web development. The course marketed to prospective students that they could become "a web developer in 24 weeks." The program, like the programs at the University of Oregon and UCF, misled students to believe that they would be operated by The

George Washington University, when in reality, they were merely 2U programs with 2U curriculum and instruction.

7. Morehouse College

79. In February 2021, Morehouse College ("Morehouse"), like USC and Arcadia, entered a partnership with 2U with the goal of providing Black men, who started but had not completed their college education, with a prestigious degree. In accordance with this partnership, 2U received 60% of the revenue generated by Morehouse Online, one of the college's programs. Morehouse is the only all-men's historically Black college in the United States of America and launched Morehouse Online in conjunction with 2U.

80. When launching the new online program, Morehouse and 2U offered returning students the ability to "become a Morehouse Man" for about half the price of an on-campus degree. Within three days, more than 5,000 people inquired about the program. Prior to launching the program, Morehouse had the goal of admitting less than 100 online students in the first year of the online program. As a result of the significant inquiry, Morehouse admitted more than double that total amount.

81. The new program faced significant challenges. Promised majors, such as computer science, were not available, and students encountered issues with credit transfers and financial aid, causing frustration and financial strain. One professor, Keith Hollingsworth, highlighted the struggles with the school's ability to offer the computer science major, commenting on the partnership with 2U: "You cannot offer it if the faculty hadn't approved it, and the faculty were still talking their way through it. I don't know how 2U felt about that, but it really didn't matter. We cannot offer things that have not been approved yet." Despite the lack of faculty buy-in, Morehouse and 2U continued to promote a computer science degree.

82. Six months after opening enrollment to prospective students, the inaugural class of Morehouse's online program was shocked to discover that the computer science program promoted and promised by the college and 2U would not be offered.

83. Despite the high enrollment, the program struggled to meet the demand and deliver on its promises. Once again, because of the partnership with 2U, yet another school was forced to prioritize enrollment numbers over the quality of education and student support, ultimately impacting the students enrolled in Morehouse online program.

E. Defendants Concealed the Known Risk that 2U was Struggling to Sustain Relationships with Partner Institutions.

84. Contrary to what the Defendants represented to investors during the Class Period, 2U's long term contractual relationships with its Partner Institutions—2U's main revenue source—were far from stable.

85. Partner Institutions expressed concerns with 2U about the quality of its programs, enrollment numbers, and marketing efforts. Throughout the Class Period. 2U's business development team hosted quarterly and annual reviews, which served as an opportunity for Partner Institutions to "air grievances." Notably, by early 2023, USC consolidated its longest running graduate programs within 2U and shifted duties from 2U to its own staff throughout the year. Disclosing these challenges and the extent of the negotiations to terminate several key Partner Institutions contracts, however, would undermine 2U's investment thesis. If 2U could not even maintain its contracts with university clients in the Degree and Alternative Credential Segment, the growth story and the transition to the edX platform meant little. 2U could not maintain its purportedly perpetual revenue sources, and highlighting the typical length of such contracts and stability of its university partners was misleading to investors.

86. At all relevant times, 2U's business development team had weekly or bi-weekly meetings with its Partner Institutions and quarterly and annual business reviews. The purpose of weekly meetings was to monitor program enrollments and, according to FE-1, the purpose of the quarterly and annual business reviews became an opportunity for schools to "air grievances." FE-1 worked at 2U from June 2017 through April 2024 in various capacities. During the Class Period, she was the program director for an online master's program with a large Partner Institution, and between June 2023 and April, she served as the Director of New Partners with 2u/edX.[1] FE-1 reported to the Senior Vice President of Global Business Development, who reported to the President of the Degree Program segment and Defendant Paucek. The fact that 2U's senior management was concerned about the stability of its Relationships with its Partner Institutions was made clear by information provided by FE-1.

87. Information provided by FE-1 demonstrates that 2U knew that many Partner Institutions were realizing that they could provide online education programs on their own without 2U's services. This trend, which included schools coming to the end of their revenue sharing agreements with 2U, or sunsetting, was present throughout the Class Period. She noted that former Partner Institutions hired specialist firms, such as UPCEA, to help educational institutions set up their own platforms. Information provided by FE-1 also demonstrates that 2U was aware that its existing Partner Institutions were "feeling ripped off" during the Class Period and they were "not getting the services" from 2U that had been promised.

88. Specifically, FE-1 said that Partner Institutions felt misled by 2U's marketing commitments to attract new students. To the Partner Institutions she worked with, increasing enrollments was ultimately "the biggest piece" of why a school would partner with 2U. However,

[1] All former employees referred to herein are referred to as "she" to protect their identities.

in the period leading up to her departure, during the Class Period, there had been "a huge decline" in enrollments for the Degree and Alternative Credential Segments. 2U "made promises" to its Partner Institutions to increase enrollments by certain percentages every quarter, which were not met. In fact, the Institutional Partner that she directly worked with gained only 30% of the enrollments that 2U represented would be attained. Information provided by FE-1 also showed that University Partners were dissatisfied with 2U's decision to decrease its marketing budget.

89. These concerns about marketing were corroborated by FE-2, a Senior Manager on 2U's Marketing, Strategy, and Analytics Team. She worked at 2U between October 2021 and January 2024. During that time, she reported to a Marketing Director and the Senior Vice Presidents of Marketing, who reported to the Senior Director of Marketing, Analytics and Insights and Defendant Paucek. FE-2's role was to oversee budget management for marketing campaign optimization. Insights generated by FE-2 were used to determine how best to deploy 2U's marketing budget to drive enrollments in its programs. FE-2 prepared and submitted monthly marketing proposals to the Director of Marketing and Senior Vice Presidents. The proposals included what the actual monthly enrollments were and how many enrollments a given marketing campaign had generated in each month. This data was available in real-time and derived from 2U's Salesforce application.

90. The information shared by FE-2 confirmed that the existence of the vicious cycle created by the decline in spending on marketing that Partner Institutions had complained of to FE-1. Particularly in 2023, FE-2 observed a "fairly large decline" decline in bootcamp enrollments in 2023. As revenues derived from the bootcamps decreased, in turn, this reduced the amount that 2U budgeted for marketing to promote the bootcamp business. Spending less on marketing meant

fewer enrollments. It was clear that the amount spent on marketing would affect how much profitability the bootcamp business could achieve, confirming the Institutional Partner's concerns.

91. The Defendants' concern about the stability of its relationships with its Partner Institutions was further confirmed by information provided by FE-5. FE-5 worked at 2U from August 2020 to February 2024, in the roles of Success Advisor to the USC account and in a general operations role, which she transferred to in October 2023. Success Advisors provided Degree Program students with advising and other support related to the program. This was one of the "bundled" services 2U provided to its Institution Partners as part of their service agreements.

92. Information shared by FE-5 showed that there were operational changes in the USC Master's programs in early 2023 that revealed the instability of the relationship between 2U and its most important client. Starting in April 2023, 2U's teams that serviced USC's Education and Social Work programs were consolidated.

93. As a result of the consolidation, there was a reduction in staff and FE-5 was one of five Success Advisers handling the two programs together. Her caseload increased from 180 students to approximately 400. After this consolidation, 2U also increased its emphasis on metrics, particularly "talk-time," or check-in calls with USC students. Before the consolidation, Success Advisors were responsible for calling students in 30 to 60 to 90 intervals to achieve a total "talk-time" of three hours a week. After the consolidation, this goal tripled to nine hours per week. To meet this new goal, check in calls became so frequent that USC students knew to block 2U's phone numbers. These and other requirements changed with the consolidation and became micromanaged and strictly enforced. This was done purely to reflect a higher volume of activity to USC.

94. FE-5 shared a particularly morbid example of how her manager myopically focused on this metric. FE-5 had a student who had gotten sick and stopped answering the check-in calls for six months. FE-5 eventually discovered that the student had passed away. Even though she told her manager this, she still had FE-5 continue to call him.

95. Over the course of 2023, USC's own employees began taking over duties previously handled by the 2U Success Advisors. FE-5 and her colleagues were told by their managers that this was because USC was "picky," but it felt like USC no longer trusted 2U. Finally, in October 2023, FE-5 was moved into a different position because the USC partnership had been winding down.

96. FE-5 provided additional information showing that Defendant Paucek was a highly engaged executive who was very concerned about the USC program. She interacted with him on several "all-hands" calls and in 2021 during a company-wide townhall responding to the *Wall Street Journal* Report.

97. Despite these concerns from Partner Institutions that were raised to senior management and the C-Suite, the Defendants did not disclose these troubling trends with their Partner Institutions and led investors to believe these universities were stable partners and secure long term sources of revenue. Indeed, although Defendants Paucek and Lalljie later disclosed that they had been working throughout 2023 aggressively on "portfolio management", i.e., terminating long-term contracts, that resulted in a ten-fold increase in termination payments during 2023, Defendants described their actions as "business as usual".

98. In an April 26, 2023 conference call with financial analysts, Defendant Paucek stated: "We do not feel the need to rework any contracts at this point, and we are not reworking any contracts at this point if that's a statement of what we think."

99. In an August 8, 2023 conference call with financial analysts, Defendant Paucek made numerous misrepresentations about "portfolio management" and "sunsetting" contracts, all stressing that there was no need for concern and that this was "business as usual" for 2U:

> **Of note for the quarter, we expected to sunset some programs in Q2, which would have resulted in significant additional revenue in the quarter. These were pushed into the back half of the year. We're confident they will close, which makes us continue to feel very good about our full year expectations."**
>
> …
>
> Yes, Jeff, I mean, **we're continually pretty much never not in some kind of discussion or negotiation with our clients. We do have a very, very substantial percentage of the revenue locked. I'm going to -- I'll get the number for you before we're done with the questions. Existing contracts represent -- it's like greater than 90% of our revenue through -- nonetheless, it's -- we do feel very confident in the current client relationships and our ability to navigate new -- moving people to flex, in some cases.**
>
> …
>
> **So we've been doing this for some time now. We thought it was important to call it out so that people understand that this is like -- it's going to be an ongoing process of us gradually rotating the business to something that we think fits the long-term value more strongly both for students, probably most importantly but also for our shareholders.**
>
> …
>
> **So overall, we feel like we've been able to do it historically with no student impact. I think that was the key. As we started doing these a couple of years ago, our biggest concern in how we handle them was making sure that students had a really good outcome and that our overall student outcomes didn't suffer during that process in any way. And honestly, we've gotten good at it. So we've gotten pretty good at a very smooth transition on these. We're obviously not going to talk about individual clients or individual contracts at all. It is multiple university partners and something that we think is important for us to continue to drive the long-term value with where the business is going.**

> …
>
> **And just one quick thing for the previous question, Jeff Silber, 95% of Degree revenue is under contract, which renew -- under contracts, which renew after 2026. So we still got quite a bit of runway in the existing portfolio.**
>
> …
>
> Yes. I mean, Jeff, there's obviously a lot in a forecast. So there's a lot of puts and takes in the forecast. We've done this for some time. You might remember, Jeff, in particular, the Simmons undergrad program. That we talked with you in particular, quite a bit about. So the -- with Simmons on ground, that's an example upon where you did have a substantial impact in that current period. **We've had some of these in the first 6 months of the year. We will continue to have them. So unfortunately, we had multiple universities in play on this, and it's a shift. But we feel very confident in our ability to manage them overall, and we like the mix that we're moving to**

100. On the same conference call on August 8, 2023, Defendant Lalljie stated that their "portfolio management" showed "our platform strategy is working."

F. Defendants Concealed the Known Risks Associated with 2U's Transition to the edX Platform.

101. Contrary to what the Defendants represented to investors, 2U's implementation of its platform strategy was not able to achieve the promised benefits.

102. Former employees across several departments confirmed that both 2U and its Partner Institutions experienced frustrations with edX. The platform's adoption got off to a "rough start" and 2U failed to invest the necessary resources to implement its platform strategy. edX had a challenging interface and generated poor prospects who had no intention of paying for any services.

103. FE-1, in her role on the Business Development Team, saw firsthand how Partner Institutions were frustrated by edX. Partners were told by 2U that edX represented a new direction with marketing and that 2U was building a marketplace for online education programs. 2U further represented to partners that edX was supposedly the "second-most visited website" when it came to higher education and that if a school put its programs on the edX "marketplace" that enrollments would "boom."

104. However, according to the information shared by FE-1, the Partner Institutions were disappointed by edX and that it was not designed to meet their needs. They felt that edX did not provide "easily digestible content" for visitors and did not adequately differentiate one school and its offerings from another. Over 250 of 2U's partners, all of which were "big name schools," were on edX but the platform's interface did not clearly lead visitors to specific programs that were being offered by a particular school. In essence, there were too many schools that were essentially competitors of one another all on the platform. Partner Institutions wanted more search engine optimization functions than was available on edX so that a prospective student looking for a particular program would be directed to specific schools.

105. Information shared by FE-1 only showed that the Partner Institutions were also disappointed by the poor quality of the prospective students that were attracted to the edX platform. FE-1 shared reports with the Partner Institutions regarding the leads that edX had generated. The reports contained a large number of international prospective students who did not qualify for any of the Partner Institution's masters' programs, the most lucrative of the Degree Program. At best, these international students were interested in a one-off bootcamp. While hundreds of thousands of leads were apparently generated by way of edX, the overall number of "creditable leads" was lower towards the end of FE-1's tenure with 2U than in the prior

years. Partner Institutions complained that 2U was not investing enough in marketing for the edX platform.

106. Apart from complaints from Partner Institutions, FE-1 also shared information showing that the online education market was changing in that prospective students were not as interested in Master's programs. But at the same time, the Alternative Credential Segments, particularly the bootcamps, were also costing too much to be profitable. To FE-1, this reflected the critical flaw with 2U's transition to a platform business model because they were not and could not be profitable with either the Degree Program or Alternative Credential segments. FE-1 said that while business for 2U had been good during the COVID-19 pandemic, by 2022, things began "unravelling" and enrollments in the programs she was involved in and overall began declining. The transition to the edX platform was the final straw for 2U.

107. FE-2 explained that the launch of the edX platform had been "really rough at the start" and did not improve during her time at 2U. The transition to the platform was difficult for 2U, because every line of business was "very silo-ed." According to the information shared by FE-2, edX was compromised of a small team that had not been able to work as fast needed to integrate 2U's programing with the platform. The small team lacked resources, especially to support the bootcamp programs that FE-2 worked on. The bootcamp line of business faced greater difficulty getting their programs on the edX platform.

108. FE-2 corroborated FE-1's account confirming that it had been difficult for the Partner Institutions to distinguish themselves amongst all the different offerings on the edX platform. EdX was only able to list hundreds of schools alphabetically on the edX platform, which made it difficult to locate a specific program. Furthermore, edX lacked the ability to provide geographical targeting for prospective students or the Partner Institutions' programs.

109. FE-3 worked at 2U from February 2000 to June 2023 as an Admissions Counselor and Admissions Manager. As a manager, she oversaw a team of 10 to 12 Admissions Counselors who were trying to enroll students into 2U's Fintech bootcamps. She reported to various directors and the VP of Bootcamps, who reported to Defendant Paucek. 2U offered the same FinTech Bootcamp through 12 to 15 universities with which 2U had partnered. The FinTech bootcamps were offered by the different Universities every three to six months depending on what demand there was for the programs. FE-3 said the number of enrollments varied over time. During the Covid pandemic, the FinTech Bootcamps had performed well with anywhere from 40 to 60 students per program, but that as time when on, the numbers ranged from 15 to 30 students per program. A minimum of 12 students were needed for a FinTech class to be financially viable, otherwise, if that threshold was not met, the students that had enrolled were told they would have to wait until a class became available that met the minimum number of enrollees. There was no upward limit on the number of enrollments for a class provided there were sufficient teaching assistants for the students.

110. FE-3 further corroborated FE-1 and FE-2's accounts of Partner Institutions' complaints about the edX platform. When a prospective student looked up FinTech programs on the edX platform, they would see every single program offered by the dozen or so Partner Institutions. This was too much information for a prospective student to go through. Further, according to FE-3, the edX platform had not been ready to launch and the company had been "struggling" to get it to work.

111. 2U's transition to a platform company did not work as promised. At the same time 2U shifted to edX, 2U began expending less on digital marketing leads in favor of the leads being generated by a so-called Free-to-Degree program. According to FE-3, in 2023 the lack of

investment in new digital marketing leads meant Admissions Counselor had to call old and stale leads to find interested perspective students. 2U's leadership would not listen to "frontline" personnel even though they knew that Free to Degree strategy was not working. Not only did 2U's leadership expect Free to Degree students to sign up for the FinTech bootcamps, but even for Masters' programs – however, there was no evidence this would happen.

112. FE-3 shared information show that marketing had become a big issue in 2023 because the cost of digital marketing leads, including from Google, had been increasing. These costs began to rise significantly in the second half of 2022. FE-3 learned about these increased costs during a with 2U's Marketing Manager. FE-3 met with the Marketing Manager to discuss the poor quality of digital marketing leads and the Marketing Manager "showed me a breakdown" of what 2U used to pay for digital marketing leads and what they were paying now. Accordingly, 2U tried to find other ways to attract students and, in particular, initiated the Free to Degree program by way of the edX platform. In essence, a student could take a free webinar program – such as a course on basic Python or Sequel – which was supposed to be a way to get these same students in the door and interested in later enrolling in a program like the FinTech bootcamp. But as FE-3 described, the Free-to-Degree program never worked the way management thought it would because most of the students who took the free courses were not interested in embarking on a bootcamp that would cost upwards of $12,000.

113. With marketing leads costing more, 2U decided to invest less in digital marketing and to rely, instead on the Free-to-Degree program. FE-3's group would get lists of these students who had taken the free webinars. However, FE-3 experienced most of these leads brought in through edX were not interested in paying for any course.

114. FE-4, who worked at 2U as a Senior Manger of Marketing and Strategy Analysis in 2023, further corroborates the other employees' accounts of users and Partner Institutions' issues with edX and FE-3's account of the issues with the Bootcamp programs on edX. She learned of these issues from companywide all-hands meetings held during her knew about the edX platform and Bootcamp program, she said these were topics discussed during company all-hands meetings held between June 2023 and December 2023.

115. These problems with 2U's new platform that it went into staggering debt to acquire would have been material to investors and should have been disclosed. Despite widespread knowledge within 2U that its new business model was not working as promised, Defendants touted the edX platform and the benefits of its new operating model.

G. USC Says, "Goodbye, 2U"

116. As discussed in Section V.D.1, the later chapters of the long-term business relationship between USC and 2U were clouded by controversy and growing scrutiny of the Degree Program.

117. USC's exit was not the first time the university took over a program 2U was supposed to operate. In 2017, USC and 2U announced two new online degrees in public policy expected to launch in 2019. Since 2021, USC operated those programs without 2U's assistance.

118. Without warning, on November 9, 2023, 2U and USC announced that they would wind down their 15-year partnership.

119. USC and 2U stated that they would continue to collaborate on a hybrid online physical therapy program for USC but that USC would assume sole responsibility for operating programs in the university's schools of education, social work, and entrepreneurship. USC agreed to pay nearly $40 million to 2U to extract itself from the partnership.

120. USC's breakup with 2U occurred against a backdrop of media scrutiny over the degree programs operated by 2U, and the withdrawal of major educational technology companies like Pearson and Wiley from the online program management space as universities increasingly opted to offer their own online classes.

121. In an earnings call with analysts on November 9, 2023, Defendants Paucek and Lalljie described USC's early exit with euphemism as "portfolio management activity." Specifically, Defendant Paucek offered that no longer working with USC would provide 2U with immediate revenue, and that USC's withdrawal did not foretell declining enrollment in other programs. Defendant Paucek further stated that 2U was parting with degree programs that weren't

performing, and that affordability was important to 2U, but program pricing was in the hands of Partner Institutions.

122. Within a week after announcing the exit of USC, 2U replaced Defendant Paucek as CEO.

H. Portfolio Management Activities in 2023 were not Business as Usual

123. Defendants Paucek and Lalljie provided assurances to the market throughout 2023, and particularly during the August 2023 earnings call, that "sunsetting" contracts and portfolio management activities were regular parts of 2U's business. However, they concealed the scale of the 2U's portfolio management activities that was undertaken in 2023.

124. For example, in 2018 and 2019, Tufts, a private university in Boston, and 2U announced partnerships with 2U to offer master's degrees in business, education and public health. "Tufts is thrilled about our partnership with 2U," said then-Executive Vice President Patricia Campbell in a 2018 news release. "2U enables us to bring our unique educational approaches to a broader audience in ways aligned with our institutional commitment to a personalized and engaging student experience." By 2022 the relationship had ended. The details of the contract's termination were confidential, but in any event not material enough to warrant mention in 2U's SEC filings.

125. In addition to the $40 million from USC, 2U also earned $26 million from another early termination in the second half of 2023, but it declined to identify the school. Reports indicate that before 2023, in addition to Tufts, 2U has quietly unwound other relationships, including with American and Baylor universities. The details of those terminations were also confidential and not material enough to warrant mention in 2U's SEC filings. Only in February 2024, after disclosing the massive growth in its "portfolio management" in 2023, did 2U reveal that it received just had

$6.4 million of unbilled revenue associate with portfolio management activities in 2022 and $68.2 million in 2023. Thus, it signified a ten-fold increase in activity, all withheld from investors.

126. Longtime partner UNC has also soured on the company, according to a confidential March 2024 internal audit. It was reported that UNC would end its contract with 2U for its accounting and public administration programs. UNC's audit indicated 2U's marketing plans were vague, enrollment projections were overly optimistic, and the quality of course production was on the decline. According to the audit, UNC has "no intention of signing any new degree programs for services from 2U."

I. "We need to improve our performance and to do it quickly."

127. On February 14, 2024, Defendants Lalljie and Norden lead their first analyst call as the new CEO and new CFO and they had to provide a stark warning to the market. They disclosed that due to the Company's debt, "there is substantial doubt about its ability to continue as a going concern." 2U further disclosed it recognized $88.0 million of revenue from portfolio management activities (*i.e.*, fees negotiated for early partnership contract termination) in 2023 and it would assume another $10 million from such activities in the first quarter of 2024 and at least $15 million in full-year 2024. 2U also announced its full year revenue of $946 million, significantly missing the Company's guidance of $965 million to $990 million, and revealed Degree Program Segment revenue, Alternative Credential Segment Revenue, and total revenue, all decreased 2% year over year. The Company also issued full year 2024 guidance, estimating revenue would continue to decline from $946 million, to $805 million to $815 million.

128. On the call, Defendant Norden also disclosed that 2U had already sold $75.9 million of receivables of the portfolio management activities for proceeds of $66.7 million. Apart from

the modest increase in enrollments in the executive education space, this projected increase in additional one-time termination fees was the only bridge spot in the earnings report.

129. On this news, 2U's share price fell $0.55 or 59.33%, to close at $0.37 on February 13, 2024, on unusually heavy trading volume.

130. In response to these announcement Phil Hill, Partner at Phil Hill & Associates, LLC, an education market analyst, announced on his blog, with "today's earnings release for Q4 and Full Year 2023, the potential end days of this once dominant company are becoming more clear."

131. While Degree Program Segment revenue increased 19% to $163.5 million. The issue is that 19%, the $54.6 million of Q4 revenue, was from termination fees where academic partners pay 2U a fee to cancel the agreement. Subtracting that one-time $54.6 million amount, the Degrees Program lost $28.2 million, more than a 20% year-over-year (YoY) decrease. That combines with a 7% loss in the Alternative Credential segment. 2U organically (in this case, removing one-time termination fees) decreased total revenue by more than 7% YoY for Q4.

J. Post Class Period Developments

132. Following the Class Period, 2U's downward financial spiral continued as its relationships with Partner Institutions continued to deteriorate, all while 2U executives benefitted.

133. On April 4, 2024, 2U's Definitive Proxy Statement filing revealed that 2U officers, including Defendants Lalljie and Norden, would receive cash payments in the following amounts: Mr. Lalljie ($2,345,000), Mr. Norden ($1,190,000), Mr. Hermalyn ($726,000) and Mr. McCullough ($726,000), to be paid in equal quarterly installments.

134. In an April 11, 2024, meeting of the University Partner Advisory Council ("UPAC"), several Partner Institutions expressed frustration with 2U - specifically that the Partner

Institutions learned of Defendant Lalljie and Norden's retention bonuses at the same time as the public, and 2U gave the Partner Institutions no notice or information to understand the bonus packages. Partner Institutions also expressed frustration that 2U had cut boot camps with no notice, causing the Partner Institutions to lose money and upsetting students.

135. Prior to the meeting, many 2U partners represented on the UPAC were in the process of considering moving programs managed by 2U in-house and renegotiating their contracts with 2U.

136. On June 13, 2024, at risk of losing its listing on the Nasdaq Global Select Market, 2U announced that it would proceed with a 1-for-30 reverse stock split of its outstanding shares of common stock. The primary goal of the reverse stock split was to increase the per share market price of the Common Stock to regain compliance with Nasdaq's minimum bid price requirement.

137. In early 2024, analysts at investment bank Baird shrunk 2U's price target from $1.50 to $1.00. At the same time, ARK Innovation, a high-performing exchange-traded fund, reduced its stake in 2U, foretelling a wider-market shift away from 2U, and underscoring 2U's problems.

138. On July 25, 2024, after more than a year of financial turmoil that sowed doubt about the future of online education at dozens of colleges, 2U filed for Chapter 11 bankruptcy.

139. The creditor-backed "pre-packaged" deal sought to change 2U's debt and ownership structure — and end its publicly traded status. The proposed restructuring sliced off more than half of 2U's debt to $459 million and sought $110 million in new capital from the company's lenders. The bankruptcy deal also extended loan-maturity dates — when final loan payments are due — by more than two years.

140. By the end of the Class Period, the bankruptcy was not a surprise. 2U's $1-billion debt load — due in large part to its acquisition of edX in 2021 for $800 million — as well as approaching payment deadlines, plunging stock prices, and trouble in all parts of its business were the leading causes. In just a few years, the company's market value fell precipitously, from a high of nearly $5.5 billion in May 2018 to roughly $11.5 million.

VI. FALSE AND MISLEADING STATEMENTS

141. Defendants made materially false and misleading statements to investors during the Class Period in violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. Among other things, they misrepresented and failed to disclose to investors:

a. beginning in 2022, and continuing throughout the Class Period, Defendants saw degree enrollments drop as 2U embraced edX and its new marketing framework;

b. the anticipated savings from reducing marketing costs by using edX never materialized;

c. the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success;

d. the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps.

e. 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy.

f. After acquiring edX, 2U decided to rely on the free to degree model to attract new students and reduce its marketing expenses. However, the leads this strategy generated did not bring new paying customers, which led to a decline in enrollments and revenue;

g. While the acquisition of edX expanded 2U's course offerings, many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations;

h. As a result of the foregoing, the story that justified 2U's stock price was fundamentally broken.

A. February 9, 2022—Fourth Quarter and Full Year 2021 Financial Results

142. The Class Period begins on February 9, 2022, when 2U filed a press release on Form 8-K reporting fourth quarter and full year 2021 ("FY 2021") financial results. The FY 2021 Press Release touted 2U's "transformational acquisition of EdX in the fourth quarter," starting in relevant part:[2]

> Additionally, we completed our transformational acquisition of edX in the fourth quarter and its successful integration is a key priority for us. ***Our outlook for 2022 reflects a disciplined growth strategy and continued progress towards profitability***, which is prudent given the digital marketing environment**.** ***With the addition of edX and our transition to a platform company, we have established a strategic and financial framework for achieving our mid-term goals and creating shareholder value.***

143. Between the press release and earnings calls, Defendants highlighted 2U's focus on scaling its ability to provide more course offerings through its newly acquired learning platform, edX. Defendants also emphasized 2U's partnerships with leading universities to connect perspective students with opportunities in the Degree Program and Alternative Credentials

[2] Unless otherwise state, all emphasis in bold and italics hereinafter is added, and all footnotes are omitted.

segments. The overall tone of both the press release and the earnings call indicated growth and strong performance for 2U in 2021, particularly in its full-year results.

144. On February 9, 2022, Defendants Paucek and Lalljie also hosted a conference call to discuss 2U's FY 2021 financial results. Defendant Paucek told investors:

> In this past November, we completed our acquisition of edX, one of the world's leading online education platforms. **With this industry-redefining combination, we've expanded our company to become one of the world's most complete online learning platforms and have gained a powerful driver of profitable growth and margin improvement.**
>
> In 2022, we plan on maintaining our commitment to profitability as we transform 2U into a leading education platform company with edX at the center, driving unmatched outcomes for millions of learners worldwide. We expect the 3 key drivers will improve our profitability in 2022: number one, **strength in our degree segment**; number two, international and enterprise expansion; and number three, scale and operational efficiency. Together, we believe these will deliver substantially improved performance to our bottom line while delivering meaningful growth.

145. The above statements concerning edX, the strength in 2U's degree segment, and 2U's transition to a platform company were materially false and misleading because (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings,

which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

146. The above statements concerning edX, the strength in 2U's degree segment, and 2U's transition to a platform company were materially false and misleading as they omitted known issues with edX that were apparent at the beginning of the Class Period, as described in Section V.F.

B. March 1, 2022, 2U Submits its Form 10-K for Fiscal Year 2021

147. On March 1, 2022, 2U submitted its annual report for the Fiscal Year ended December 31, 2021 on a Form 10-K filed with the SEC ("FY21 10-K"). The FY21 10-K underscored 2U's story as a growing company fulfilling its mission to help colleges and universities succeed in their digital transformation journeys. Revenue for full-year 2021 increased 22% to $945.7 million compared to 2020. This growth was driven by the Degree Program Segment's revenue increased 22% to $592.3 million and the Alternative Credential Segment's revenue increased 23% to $353.4 million

148. The FY21 10-K stated the following regarding the Company's sources of revenue:

> ***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

149. The FY21 10-K purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

150. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

151. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were also materially false and misleading as they omitted known issues Partnership Institutions had with 2U, as described in Section V.E.

C. May 5, 2022, Press Release for the Quarter Ended March 31, 2022

152. On May 5, 2022, 2U issued a press release announcing its results for the quarter ended March 31, 2022, which touted the Company's partnership success with edX and key business drivers. Overall revenue increased 9% compared to Q1 2021 and revenue from the Degree Program segment increased 6%. 2U continued to emphasize its transition to a platform company under the edX brand, aiming to create a free-to-degree online learning marketplace. 2U claimed that implementing this new marking framework would increase efficiency and reduce spending on marketing.

153. The press release stated in relevant part:

> "As we transition to a platform company under the edX brand, ***our partnerships help make institutions sustainable*** and help individuals unlock the livelihoods they want now and in the future."

* * *

> Paul Lalljie, 2U's Chief Financial Officer, added, "Our first quarter results demonstrated ***resilience in enrollments and revenue***, as well as continued improvement in operating efficiency. Based on these results and the outlook for key business drivers, we are affirming our revenue guidance and increasing our adjusted EBITDA guidance for the full year. ***We remain focused on unlocking the potential of edX, continuing to invest in our degree programs***, ***and improving the profitability of the Alternative Credential Segment."***

154. On that same day, Defendants held a conference call to discuss 2U's quarterly earnings. 2U faced some challenges as evidence by the increased adjusted net loss from $9.9 million to $18.5. However, the growth in both the Degree Program and Alternative Credential Segments suggested continued demand for 2U's services. Defendant Paucek took this to mean that the platform strategy was working. He told investors:

> **We're off to a great start on edX, but we have much more to do. We see 6 keys to unlocking the full potential of edX.org and cementing it as the preferred destination of choice for learners across the globe.**
>
> **Those 6 are: number one, traffic; number two, SEO and content publishing; number three, portfolio marketing versus single product marketing; number four, product evolution with stackable credentials; number five, white label opportunities and revenue model flexibility; and number six, new international channels and enterprise expansion.**

155. The above statements were materially false and misleading because: (1) beginning in early 2022, and continuing throughout the Class Period, Defendants saw degree enrollments decline significantly as 2U embraced edX and its new marketing framework; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between

2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) After acquiring edX, 2U decided to rely on the free to degree model to attract new students and reduce its marketing expenses. However, the leads this strategy generated did not bring new paying customers, which led to a decline in enrollments and revenue; (7) While the acquisition of edX expanded 2U's course offerings, many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

156. The above statements were also materially false and misleading because, as described above in Section V.F, the launch of the edX platform had been "really rough at the start" and the transition to the platform was difficult for 2U because edX was compromised of a small team that had not been able to work as fast needed to integrate 2U's programing with the platform. This actual state of affairs was materially worse than Defendant Paucek's claim that 2U was, "**off to a great start on edX. . .**"

D. May 10, 2022 First Quarter 2022 Financial Results

157. On May 10, 2022, the Company submitted its quarterly report for the period ended March 31, 2022 on a Form 10-Q filed with the SEC ("1Q22 10-Q"). As discussed in the press release and on the earnings call, 2U's first quarter results showed growth in both its Degree Program and Alternative Credential segments, despite an increased net loss. The guidance for the

full year suggests expectations of continued revenue growth and improved adjusted EBITDA performance.

158. The 1Q22 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

> ***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts***. Our contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation***, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

159. The 1Q22 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

160. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

161. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were also materially false and misleading as they omitted known issues Partnership Institutions had with 2U, as described in Section V.E.

162. The above risk factor was false and misleading because it failed to warn investors to known risks caused by sunsetting programs and portfolio management activities with 2U's Partner Institutions. As detailed herein, during the Class Period, 2U's Forms 10-K and 10-Q failed to disclose that: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources.

E. July 28, 2022, Second Quarter 2022 Financial Results

163. On July 28, 2022, the Company submitted its quarterly report for the period ended June 30, 2022, on a Form 10-Q filed with the SEC ("2Q22 10-Q"). The 2Q22 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

> ***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

164. The 2Q22 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

165. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

166. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were also materially false and misleading as they omitted known issues Partnership Institutions had with 2U, as described in Section V.E.

167. The above risk factor was false and misleading because it failed to warn investors to known risks caused by sunsetting programs and portfolio management activities with 2U's Partner Institutions. As detailed herein, during the Class Period, 2U's Forms 10-K and 10-Q failed to disclose that: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources.

168. On that same day, 2U held a conference call to discuss the quarterly earnings. The financial results were mixed as Degree Program segment revenue decreased by 2% and revenue from the Alternative Credential Segment grew by 8%. Net loss also increased by $41 million to $62.9 million.

169. The earnings call reflected 2U's strategic shift towards a more integrated platform approach under the edX brand, with a focus on profitability and operational efficiency. 2U announced it would accelerate its transition to a platform company under the edX brand unifying product and marketing strategy to create a comprehensive online learning marketplace, implementing a new marketing framework to increase efficiency, and simplifying the executive structure and reducing employee headcount.

170. Defendant Paucek emphasized the company's transition to a platform model, stating it would create a stronger, more agile business that delivers greater value for learners, partners, and shareholders. In his introductory remarks, he told investors:

> **Over the last 6 months, we've become increasingly confident in our platform strategy, which puts edX at the center as a unifying platform to drive high-quality learning outcomes. We're bringing together our universities, learners and enterprise partners into 1 platform, driving network effects to deliver our mission, deepen our strategic mode, drive sustainability and power long-term growth.**
>
> **During what was clearly a complicated quarter, our confidence in our platform strategy increased due to meaningful progress on various tactics we discussed on last quarter's call, including organic demand generation and the publishing platform of edX. As the quarter elapsed and the work progressed, we also realized that in order to really unlock this overall strategy, we need to fully reorganize our company around the edX platform. We do it to service to ourselves, our partners, our learners and our shareholders if we didn't go all the way into this platform transformation.**

171. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) beginning in early 2022, and continuing throughout the Class Period, Defendants saw degree enrollments decline significantly as 2U embraced edX and its new marketing framework; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) after acquiring edX, 2U decided to rely on the free to degree model to attract new students and reduce its marketing expenses. However, the leads this strategy generated did not bring new paying customers, which led to a decline in enrollments and revenue; and (7) while the acquisition of edX expanded 2U's course offerings, many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities or negotiated early terminations.

172. During the Q&A session of the July 28, 2022 earnings call, several analysts inquired about the effect of the transition to the edX platform on 2U's Partner Institutions.

173. Ryan MacDonald of Needham & Company, LLC, asked how 2U would be able to balance marketing spending appropriately to make sure that the Partner Institutions were getting the appropriate amount of marketing to drive those enrollments with the new free to degree

strategy. Defendant Paucek responded that 2U, "**would still drive individual program marketing but as we aggregate the activity under edX, all the boats will rise**."

174. The above statement was materially false and misleading because, as described in Sections V.E and F, Partner Institutions had issues with edX platform and the new marketing strategy. The transition to edX while greatly reducing marketing spending could not and did not create a rising tide to lift all ships, as Defendant Paucek assured.

175. The above statement was also materially false and misleading because: (1) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (2) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (3) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (4) after acquiring edX, 2U decided to rely on the free to degree model to attract new students and reduce its marketing expenses. However, the leads this strategy generated did not bring new paying customers, which led to a decline in enrollments and revenue; and (5) while the acquisition of edX expanded 2U's course offerings, many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities or negotiated early terminations.

176. Thomas Singlehurst of Citigroup Inc. asked how 2U would maintain the quality of its services while marketing as a platform and reducing headcount:

> I wanted to ask one question about the way that you go to market, though. I mean, I get the impression that 2U's position historically has been sort of perceived as and has actually been quite premium sort of white glove service, if you will. If you're moving to a model

> where you're marketing more as a platform and you're reducing headcount, do you just make -- how do you make sure that you don't compromise the sort of quality of the sort of service to, in particular, your university partners?

177. Defendant Paucek's responded, **"I would say we made it purposely clear in the prepared remarks to emphasize the fact that -- we're doing this in a way that we believe will not decrease quality, and that is of most concern to the company and to the management team. Quality has been our hallmark."**

178. The above statement was materially false and misleading because, as described in Sections V.E & F, Partner Institutions had issues with edX platform and the new marketing strategy. The above statement was also materially false and misleading because, as described in Section V.D., both students and Partner Institutions reported issues with the quality of 2U's programming.

F. November 7, 2022, Third Quarter 2022 Financial Results

179. On November 7, 2022, 2U issued a press release announcing its results for the quarter ended September 30, 2022 which touted the Company's alleged sustained program offering success, stating in relevant part:

> "***We completed our strategic realignment and accelerated 2U's transition to a platform company under the edX platform during the quarter,"*** said 2U Co- Founder and CEO Christopher "Chip" Paucek. "We realigned our organization around a single platform, ***streamlined our cost structure and implemented a new, more efficient marketing framework.*** We believe these ***structural changes will not only strengthen our bottom line,*** but also supercharge our ability to match millions of learners with accessible, best-in-class learning experiences from top institutions that help them advance their careers and transform their lives."
>
> ***Paul Lalljie, 2U's Chief Financial Officer, added, "Our third quarter results demonstrate early returns from our platform strategy and execution of our Strategic Realignment Plan.*** We delivered record adjusted EBITDA of $32.5 million, a 121% increase versus the prior year driven by ***improvements from both***

> ***segments.*** As a result, we are increasing our adjusted EBITDA outlook for 2022 and remain committed to delivering further profitability improvements and positive free cash flow in 2023."

180. The above statement was materially false and misleading because, as described in Section V.F, Partner Institutions had issues with edX platform and the new marketing strategy.

181. On November 7, 2022, the Company submitted its quarterly report for the period ended September 30, 2022, on a Form 10-Q filed with the SEC ("3Q22 10-Q"). The 3Q22 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

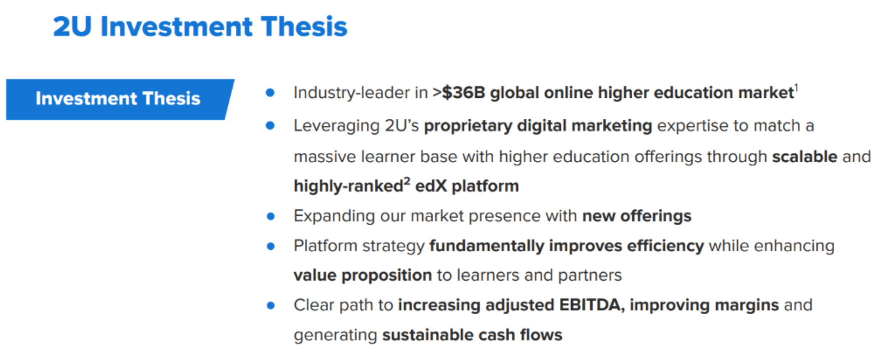
> ***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

182. The 3Q22 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

183. The above statements in the 3Q22 10-Q concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability

and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

184. On that same day, 2U held earnings call to discuss the Third Quarter 2022 Financial Results. 2U also published an investor presentation in connection with the call. The presentation included the following slides:



185. The contents of the slide entitled, "2U Investment Thesis" were materially false and misleading because: (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX

never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

186. The contents of the slide entitled, "2U Investment Thesis" were materially false and misleading because, as described in greater detail in Section V.F, edX was "rough from the start" and throughout the Class Period, using the platform was problematic for potential students and Partner Institutions.

187. The contents of the slide entitled "Program Strategy Drives Improved Efficiency" were materially false and misleading : (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-

priced or free course offerings, which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

188. The "Early Accomplishments" section was further materially false and misleading because, as described by former employees in more detail in Section V.F., the new marketing framework was less efficient as it attracted prospective students who were either not interested in paying for courses or could not qualify for Degree Program offerings as international students. Also as described in more detail in Section V.F., former employees shared information demonstrating that there were issues integrating 2U's catalogue on after the 2U's acquisition, edX had small team that lacked resources.

189. On November 7, 2022 in his introductory remarks during the conference call , Defendant Paucek told investors:

> **2U is transitioning most activity to the edX Platform, and we're seeing material progress internally and externally on the 3 things we talked about last quarter. First, we completed our organizational realignment, reducing our expense run rate by $70 million. Second, we implemented a new, more efficient marketing framework reflected in the $18.7 million reduction in variable/paid marketing spend from Q2 to Q3. Third, we launched more than 115 new open courses, professional certificates and micro credentials from 46 unique partners, signed multiple degree programs and brought 6 new corporate and university partners to the platform, including UC Riverside and Google Cloud. Total learners on edX also increased to over 46 million. These strategic shifts, combined with the muscle mass, i.e., domain authority of the edX Platform, puts us in a strong position to build on our profitability in 2023, bucking the challenging marketing realities that other companies and institutions are experiencing.**

190. During the Q&A session, Ryan MacDonald Needham & Company, LLC asked:

> Very much. So that's helpful. And then on the flex program, it's great to hear about the strong pipeline you're building, but I'm curious how it's altering the conversations with existing partners. I guess on one side, should we expect -- does this create an opportunity for early renewals and expansions of existing contracts? And if so, should investors expect any sort of transitionary period from the modeling perspective as they shift from maybe the traditional model to a flex?

191. Defendant Paucek answered confidently:

> So in general, Ryan, full and flex will coexist. Somebody having a full program, the flex existing doesn't mean all of those schools are running to a flex program. That's not the case. Our partners understand, for the most part, if something is large, if it's a program that is really meaningful to the partner and to 2U, they understand that you can't get there without the scale that the paid marketing brings to the table. **We've got really stable partnerships across the board. Partners are in a good place.**

192. The above statement regarding the ability of 2U to build on its profitability and stability of 2U's partnerships was materially false and misleading because: (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding

contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

193. The above statement regarding 2U's partnerships were further materially false and misleading because: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

G. November 29, 2022—Credit Suisse 26th Annual Technology Conference.

194. On November 29, 2022, Defendant Lalljie participated in a Q&A session at Credit Suisse's 26th Annual Technology Conference. During a relevant exchange,

> Richard Hilliker: So really busy year for you guys. A lot to talk about and unpack here and so we can walk through all this. But maybe over the past few months, for those ramping back up to speed, can you help us understand the key highlights here. We've seen a reorganization. We've seen inflection in profitability. We've seen a replatforming. There's a lot going on. So maybe from your view here, how would you highlight some of the big changes that have happened just since this summer?
>
> **Paul S. Lalljie: … And one of the things that we did in the summer was to accelerate that platform strategy. And by accelerating the platform strategy, we refer to it as we rip the Band-Aid off. We essentially instead of operating in silos, in lines of business, instead of having multiple marketing departments, instead of having multiple executive lead the business, consolidate, let the platform be the primary driver of our business. And to some extent, that has led to a significant reduction in cost. I mean, one may refer to that as synergies as you consolidate platforms and businesses together. And it is a strategic realignment that has truly allowed us to unlock value.**

195. The above statement from Defendant Lalljie was materially false and misleading because: (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

196. The above statements were also materially false and misleading because, as described in more detail in Section V.E., 2U's separate departments continued to "operate in silos" throughout the Class Period and it maintained multiple marketing departments for its different product lines.

H. January 9, 2023—Press Release Regarding its Debt Refinancing

197. On January 9, 2023, 2U announced that it has entered into an agreement to refinance its term loan, extending the maturity date from December 2024 to December 2026, amending other terms, and securing approximately $127 million in new funding from Greenvale Capital LLP and The Berg Family Trust through $147 million in principal amount of 4.50% Senior Unsecured Convertible Notes due 2030.

198. This refinancing was critical to enhance the 2U's financial stability and operational focus while maintaining its commitment to delivering profitability and cash flow. The press release also connected the refinancing to the company's strategy focus, claiming that the refinancing aligns with 2U's efforts to optimize its balance sheet, strengthen its global market position, and continue executing its platform strategy—the same strategy that was enabled by taking on this debt in the first place.

199. The press release stated in relevant part:

> "We are excited to start 2023 with this important first step to optimize our balance sheet," said 2U Chief Financial Officer Paul Lalljie. "The transactions announced today will provide us with the ***flexibility to execute on our platform strategy and further strengthen our global market position***. We are grateful for the support we've received from our lenders and Greenvale throughout this process, which we believe is an indicator of the financial community's confidence in our business. Today, we are operating as a leaner, more agile company that remains fully focused on delivering cash flow and profitability."
>
> Mr. Lalljie continued, "***We continue to see returns from our platform strategy and the implementation of our Strategic Realignment Plan***. As a result, today we affirm the full-year 2022 guidance we provided on our November 7, 2022 earnings call and reiterate the 2023 adjusted EBITDA target provided on that call, as we continue to execute on our platform strategy."

200. The above statements were materially false and misleading because (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional

marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

I. February 21, 2023—Fourth Quarter and Full Year 2022 Financial Results

201. On February 21, 2023, the Company submitted its quarterly report for the fiscal year ended December 31, 2022 on a Form 10-K filed with the SEC ("FY22 10-K"). Q4 2022 revenue was $236.0 million, a slight decrease from $243.6 million in Q4 2021. Marketing and sales expenses as a percentage of revenue decreased, reflecting improved efficiency. 2U reduced paid marketing spend by $26.3 million year-over-year in Q4 2022 and by $46.5 million for the full year 2022. Using edX, the cost per lead was reduced by 34% year-over-year in Q4 2022. Degree Program revenue decreased by 10% in Q4 2022 while Alternative Credential segment revenue grew by 8% that same quarter.

202. The FY22 10- K stated the following regarding the Company's sources of revenue and contract duration with university clients:

> ***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

203. The FY22 10-K purported to warn of the risk caused by factors including, in relevant part, the Company's "our ability to acquire new clients and expand our offerings with existing university clients."

204. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

205. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were also materially false and misleading as they omitted known issues Partnership Institutions had with 2U, as described in Section V.E.

206. The above risk factor was false and misleading because it failed to warn investors about known risks caused by sunsetting programs and portfolio management activities with 2U's Partner Institutions. As detailed herein, during the Class Period, 2U's Forms 10-K and 10-Q failed to disclose that: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources.

J. March 21, 2023—2U 's Analyst and Investor Day.

207. 2U, Inc. held its Investor Day on March 21, 2023, at the Nasdaq MarketSite in New York City. The event featured presentations from key company executives, including Defendant Paucek, Chief Platform Officer Anant Agarwal, and Defendant Lalljie, among others.

208. The Investor Day provided a comprehensive overview of 2U's business strategy, financial performance, and future outlook. The company emphasized its confidence in its platform strategy, positioning platforms as the future of education.

209. During the introductory remarks, Defendant Paucek told investors:

> Our platform is building a large and durable mode to competition by putting 2U's engine under the hood of edX to create the most powerful online learning platform on the planet. It creates a flywheel in a virtuous cycle with partner and content growth or supply driven by learner growth or demand. We start with the world's most comprehensive free-to-degree portfolio, effectively matching learners with content to drive the flywheel. We have best-in-class learner and partner support services something that the rest of the space typically does not have. **This creates high-quality online education at scale, combining the reach of edX with the enabling services of 2U**

210. During the Q&A session, an analyst asked how the company planned to address partner attrition.

> Jeffrey P. Meuler Robert W. Baird & Co. Incorporated, Research Division: So I don't think you have any partners on the degree side up for renewal in the next like 1 year or 2. But in the longer-term horizon, you do and you have some skilled, highly profitable partners. So Paul, what kind of allowances does the long-term model make for potential partner attrition. And then just how do you feel in general about the large-scale partners that do come up for renewal in a few years.
>
> Defendant Paucek: Before you go because I do want you to answer that, but can you tell them what we just did with SMU.
>
> Andrew Hermalyn (2U President of Partnerships) Sure. We did the next degree partner we had up for renewal is SMU. We have a

> master's degree in data science with them, which we did announce a month or so ago that we've extended that out through -- to 2027. 2027 right? So that would be the next one. Yes.
>
> **Christopher J. Paucek Co-Founder, CEO & Director The reason that that's notable, Jeff, particularly for someone that has your tenure with the company is that for a long time, we, 2U, Andrew and I were going to the institution to actually try to get the contract opened because we had signed exclusive arrangements. Now maybe we could have never launched the company if we didn't have exclusive arrangements. So we went to schools like Carolina and we said, you know what, we'd like to -- we love you, but we'd actually like to see some other people as well that was very complicated. And so we had to open each contract, we had to renegotiate the contract. [. . .]**
>
> Defendant Lalljie: So Jeff, we -- **the model assumes minimal changes. It does have some slight changes**. And keep in mind, the overall mix would be also different because we have 25 new launches of flex degrees going forward, and the rev share there is obviously very different. **But in terms of the traditional full launches, we assume a fraction of very small changes.**

211. The above statements concerning 2U's Partner Institutions and the Degree Program segment were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis. These statements gave the false impression that 2U's relationships with its Partner Institutions were stable, when as described in more detail in Sections V.E and F, through the Class Period Partner Institutions had serious issues with 2U's operations, its transition to a platform company, and the adoption of edX.

K. April 26, 2023, First Quarter 2023 Financial Results

212. On April 26, 2023, the Company issued a press release announcing its results for the quarter ended March 31, 2023, which stated in relevant part:

> "Our platform strategy has contributed to these strong results, creating a sound financial foundation and setting the stage for ***future top-line growth and sustained value creation for our shareholders," added Paul Lalljie, 2U's Chief Financial Officer. "This leads us to affirm our revenue guidance and increase our adjusted EBITDA guidance for the full year."***
>
> Business Outlook for Fiscal Year 2023
>
> The company affirmed its revenue guidance provided on February 2, 2023 and updated its guidance for net loss and adjusted EBITDA as follows:
>
> - ***Revenue to range from $985 million to $995 million, representing growth of 3% at the midpoint***
> - ***Net loss to range from $93 million to $87 million***
> - Adjusted EBITDA to range from $157 million to $163 million, representing growth of 28% at the midpoint

213. On the same day, 2U hosted a conference call to discuss its quarterly financial results. Although the company reported a 6% decrease in revenue compared to the same quarter in 2022 and a decline in revenue from the Degree Program segment, Defendant Paucek emphasized 2U's platform strategy and marketing framework and claimed that 2U was seeing tangible benefits from these strategic changes. In his introductory remarks he proclaimed: "**we're off to a really good start in 2023 as we execute the platform strategy and drive greater profitability and cash flow**."

214. The above statements were materially false and misleading because: (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the

mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

215. On April 28, 2023, the Company submitted its quarterly report for the period ended March 31, 2023 on a Form 10-Q filed with the SEC ("1Q23 10-Q"). The 1Q23 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

> ***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

216. The 1Q23 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "our ability to acquire new clients and expand our offerings with existing university clients."

217. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were materially false and misleading because (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources: and (5) that as a result of the foregoing, Defendants' positive statements about 2U's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

218. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were also materially false and misleading as they omitted known issues Partnership Institutions had with 2U, as described in Sections V.E and F.

219. The above risk factor was false and misleading because it failed to warn investors to known risks caused by sunsetting programs and portfolio management activities with 2U's Partner Institutions. As detailed herein, during the Class Period, 2U's Forms 10-K and 10-Q failed to disclose that: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; and (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources.

L. August 8, 2023, Second Quarter 2023 Financial Results

220. On August 8, 2023, the Company issued a press release announcing its results for the quarter ended June 30, 2023, which stated in relevant part:

> "***2U's platform strategy is thriving*** and delivering sustainable double-digit margins driven by content velocity, product innovation, marketing effectiveness and operational efficiency," said Christopher "Chip" Paucek, Co-Founder and CEO of 2U.
>
> * * *
>
> ***Notably, in 2024 we plan to nearly triple our new degree launches*** compared to our highest launch year with at least 50 new, capital-efficient programs. ***We expect this momentum to continue in future years given the strength of our pipeline,*** popularity of our flex degree model, and promise of our flat fee model."
>
> * * *
>
> ***Notably, in 2024 we plan to nearly triple our new degree launches*** compared to our highest launch year with at least 50 new, capital-efficient programs. ***We expect this momentum to continue in future years given the strength of our pipeline,*** popularity of our flex degree model, and promise of our flat fee model."
>
> **Business Outlook for Fiscal Year 2023**
>
> The company reaffirmed its revenue guidance provided on February 2, 2023 and updated its guidance for net loss and adjusted EBITDA provided on April 26, 2023 as follows:

- ***Revenue to range from $985 million to $995 million, representing growth of 3% at the midpoint***
- ***Net loss to range from $225 million to $220 million***
- Adjusted EBITDA to range from $160 million to $165 million, representing growth of 30% at the midpoint

221. On August 8, 2023, the Company also submitted its quarterly report for the period ended June 30, 2023, on a Form 10-Q filed with the SEC ("2Q23 10-Q"). The 2Q23 10-Q stated

the following regarding the Company's sources of revenue and contract duration with university clients:

> In our Degree Program Segment, ***we derive substantially all of our revenue from revenue-share arrangements with our university clients*** under which we receive a contractually specified percentage of the amounts students pay them to enroll in degree programs. ***Our contracts generally have 10 to 15 year terms and do not include termination rights for convenience.***

222. The 2Q23 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "our ability to acquire new clients and expand our offerings with existing university clients."

223. The above statements were materially false and/or misleading and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) the Company was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) the Company's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources; and (5) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

224. The above risk factor was false and misleading because it failed to warn investors to known risks caused by sunsetting programs and portfolio management activities with 2U's Partner Institutions. As detailed herein, during the Class Period, 2U's Forms 10-K and 10-Q failed to disclose that: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships were cancelled; (3) 2U's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly,

the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources.

225. On that same day, 2U hosted a conference call to discuss the company's quarterly financial results. Defendant Paucek emphasized the success of the platform strategy in delivering sustainable double-digit margins, while Defendant Lalljie highlighted the tangible benefits of the refreshed marketing framework. All the while, Revenue decreased 8% to $222.1 million compared to Q2 2022 and the Degree Program segment revenue declined 16% to $119.5 million. Marketing expenses as a percentage of revenue dropped by nine percentage points and the edX platform generated 44% organic leads.

226. Defendant Paucek told investors

> **We believe the business is moving strongly in the right direction due to our platform strategy. As a result, we're increasing our bottom-line guidance for the full year while reiterating our top line. We did have some revenue shift from Q2 to later in the year, something Paul will cover in detail**
>
> **To deliver this strategy, we must continuously evaluate our current portfolio of offerings and at times, exit programs that do not fit. We've managed our portfolio in this manner for a few years now, and we've discussed some of those in the past, and we'll continue rotating the dial towards evolving student needs.**

227. Defendant Lalljie later expanded on this:

> **As part of our portfolio management efforts, in the second quarter, we expected to finalize agreements to sunset certain programs. However, these were pushed into the second half of the year. These agreements would have generated revenue in the Degree Program Segment in the second quarter. Now let's take a look at cost and expenses.**
>
> * * *
>
> **There are numerous indications of this, including the momentum in content velocity, the growth in organic leads, the**

> **significant marketing efficiencies, enterprise growth and the strong demand we're seeing for our flex Degree offerings. We are on track to meet and perhaps beat our 2023 financial goals while optimizing our degree portfolio and rolling out new program options for our partners. All of which is building a more competitively differentiated, resilient business for the future of education and positioning the company to deliver continued improvement in profitability and cash flows.**

228. The above statements were false and misleading because: (1) 2U's transition to a platform company lead to a decrease in full course equivalent enrollments; (2) the anticipated savings from reducing marketing costs by using edX never materialized; (3) the mismatch between 2U's high-cost Degree Program and edX's largely international user base hindered success; (4) the flawed design of the edX platform made it hard for prospective users to find program offerings and for Partner Institutions to effective market their courses in Degree Program and Alternative Credential segments, including bootcamps; (5) 2U's traditional marketing strategy was built around higher-priced programs in the involving "bundled services" and this approach was unable to benefit the majority of edX's lower-priced or free course offerings, which was embodied by the free to degree philosophy; and (6) While the acquisition of edX expanded 2U's course offerings, 2U was unable to sustain relationships with key organizations and many valuable longstanding contracts with Partner Institutions began to end through portfolio management activities, or negotiated early terminations.

229. The above statements concerning 2U's Degree Program segment and contracts with Partner Institutions were also materially false and misleading as they omitted known issues Partnership Institutions had with 2U, as described in more detail in Section V.E.

230. During the Q&A portion of the conference call, many analysts asked questions about 2U and its Partner Institutions.

Jeffrey Silber, BMO Capital Markets Equity Research: Can you remind us when your next renewals are coming up in your Degree programs? Are you having negotiations with those partners? Should we expect a different type of contract, maybe shifting out of revenue share to flat fee, et cetera?

Defendant Paucek: Yes, Jeff, I mean, we're continually pretty much never not in some kind of discussion or negotiation with our clients. **We do have a very, very substantial percentage of the revenue locked**. I'm going to -- I'll get the number for you before we're done with the questions. **Existing contracts represent -- it's like greater than 90% of our revenue through -- nonetheless, it's -- we do feel very confident in the current client relationships and our ability to navigate new -- moving people to flex, in some cases.**

…

So feeling really very positive about the existing client base. There are definitely some cases where you have current clients that have programs that exist already. And as you might imagine, if they exist already, doing them under the full revenue share bundle like what we've historically been known for doesn't make as much sense because the courses already exist and therefore, the cash to create those has already been in place. So we think flat fee just sort of opens up more opportunities, not just with new clients but at existing clients. The reality is, you want to give them the options and I think if we keep giving them the options, we should see more and more degrees come on to the platform.

* * *

Ryan MacDonald Needham & Company, LLC, Research Division: Maybe to start, Chip and Paul, obviously, a common topic on the conversation was the idea of portfolio management and continuing to sort of evaluate the existing portfolio. Given the commentary that Alternative Credentials is expected to be larger in 2024, I'm curious beyond what you've talked about in sort of the shift of sunsetting programs in 2Q, 3Q. How many additional programs or what level of valuation are you undertaking to sunset additional programs as we go into 2024? And is that having a contributing factor on sort of the commentary around Alternative Credential exceeding Degrees next year?

Defendant Paucek: **So we've been doing this for some time now. We thought it was important to call it out so that people understand that this is like -- it's going to be an ongoing process of us gradually rotating the business to something that we think**

fits the long-term value more strongly both for students, probably most importantly but also for our shareholders.

* * *

Jeffrey P. Meuler Robert W. Baird & Co.: Yes. Apologies if it's just me that's confused. But it's not -- I'm not understanding why sunsetting programs later than expected is causing revenue to be pushed out? Is this like early-break fees that you were expecting to be recognized in Q2 that you're now expecting to be recognized in the back half? Or just can you be any more clear on what the dynamic is that sunsetting later than expected pushes revenue up.

Defendant Paucek: Yes. So in certain cases, there's a contractual arrangement that we expected in the forecast. And in this particular case, it's moved into the back half of the year. It's that simple. So these are negotiated agreements, Jeff.

Jeffrey P. Meuler Robert W. Baird & Co.: Were the contractual arrangements in place that the timing was moved. But the contractual arrangements for the sunset, were they in place at the time that you gave us the multiyear targets at the Investor Day in March?

Defendant Paucek: **Yes. I mean, Jeff, there's obviously a lot in a forecast. So there's a lot of puts and takes in the forecast. We've done this for some time. You might remember, Jeff, in particular, the Simmons undergrad program. That we talked with you in particular, quite a bit about. So the -- with Simmons on ground, that's an example upon where you did have a substantial impact in that current period. We've had some of these in the first 6 months of the year. We will continue to have them. So unfortunately, we had multiple universities in play on this, and it's a shift. But we feel very confident in our ability to manage them overall, and we like the mix that we're moving to.**

231. The above statements were materially false and misleading because: (1) 2U was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs had been or were in the process of being cancelled; (3) accordingly, 2U had overstated the stability and/or longevity of its contractual agreements and/or revenue sources.

232. Statements characterizing contract sunsets and attrition as routine business occurrence while simultaneously engaging in negotiations with multiple Partner Institutions to prematurely terminate numerous long-term contracts was materially false and misleading, as it minimized the nature and scale of the ongoing contract terminations.

VII. Disclosures at the End of the Class Period: Loss Causation.

233. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of 2U common stock and operated as a fraud or deceit upon Class Period purchasers of 2U securities by failing to disclose and misrepresenting the adverse facts detailed herein.

234. Class members unknowingly and in reliance upon the Exchange Act Defendants' materially false or misleading statements and/or omissions purchased 2U common stock at artificially inflated prices. But for the Exchange Act Defendants' misrepresentations, omissions, and fraudulent scheme, Plaintiffs and other Exchange Act Class members would not have purchased 2U stock at the artificially inflated prices at which it traded during the Class Period.

235. The truth regarding the Defendants' fraud was revealed in a series of corrective disclosures and/or materializations of concealed risk that occurred between November 9, 2023 and February 12, 2024. During this period, 2U's stock price fell as the artificial inflation caused by Defendants' unlawful conduct exited 2U's stock price. It was not until the final partial corrective disclosure and/or materialization of concealed risk on February 12, 2024 that the full truth was known to the market, such that there was no longer any artificial inflation in 2U's stock price attributable to the fraud.

236. The declines in 2U's stock price during this period, including the declines summarized below, are directly attributable to the market absorbing information that corrected and/or reflected the materialization of risks concealed by the Exchange Act Defendants' material misrepresentations or omissions.

237. As a result of their purchases of 2U common stock during the Class Period, Plaintiffs and other Exchange Act Class members suffered economic loss (*i.e.*, damages) under the federal securities laws. The Exchange Act Defendants' materially false and misleading statements had the intended effect and caused 2U common stock to trade at artificially inflated levels throughout the Class Period.

238. By concealing from investors the adverse facts detailed herein, Defendants presented a misleading picture of 2U's business. As the truth about 2U and the extent of the fraud was revealed to the market, the price of 2U common stock fell significantly. These declines removed the inflation from the price of 2U common stock, causing real economic loss to investors who had purchased 2U common stock during the Class Period.

A. November 9, 2023, Third Quarter 2023 Financial Results

239. On November 9, 2023, after the market closed, the truth started to emerge when the Company announced that 2U and USC would wind down their 15-year collaboration in the Company's major programs, and that USC would pay approximately $40 million in connection with this exit. The Company also announced it would recognize a total of $88 million in the fourth quarter related to partners seeking a negotiated exit from certain degree programs, which the Company euphemistically referred to as "portfolio management activities." 2U disclosed these portfolio management activities would offset a 21% decrease in full course equivalent enrollment, which was primarily driven by "the impact of [its] transition to a new marketing framework in

mid-2022." 2U also revealed fiscal quarterly results, showing Degree Program revenue was flat year over year, that total revenue had decreased 1%, and that the Alternative Credential Segment revenue decreased 3%.

240. Specifically, the company issued a press release which announced that 2U and University of Southern California would wind down online degree programs from the USC Rossier School of Education, USC Suzanne Dworak-Peck School of Social Work, and the USC Iovine and Young Academy. During an earnings call held on that date, Defendant Paucek, revealed USC paid approximately $40 million in connection with the end of its USC relationship, stating, in relevant part:

> Early in the fourth quarter, we also mutually agreed to transition out of certain degree programs with USC. This will result in revenue in the fourth quarter of approximately $40 million.

241. On the same day, the Company also reported financial and operating results for the quarter ended September 30, 2023 (the "3Q23 Press Release"). The 3Q23 Press Release revealed the Company's third quarter 2023 results, including that the Company's revenue would be, in part, derived from "portfolio management," i.e., fees paid by university clients to exit contractual degree programs. The 3Q23 Press Release revealed full course enrollment fell by over a quarter, primarily driven by the same "portfolio management" and "the impact of [the Company's] transition to a new marketing framework in mid-2022". The 3Q23 Press Release stated in relevant part:

> Discussion of Third Quarter 2023 Results
>
> Revenue for the quarter totaled $229.7 million, a 1% decrease from $232.2 million in the third quarter of 2022. ***Revenue from the Degree Program Segment was flat and included $25.8 million of revenue from portfolio management activities related to the mutually negotiated exit of certain degree programs. Portfolio management activities typically result in current period revenue recognition of the fees paid by university clients, which the***

> ***company typically collects over 12 to 24 months. Average revenue per full course equivalent ("FCE") enrollment increased by 26%, primarily driven by the revenue acceleration from fees received in connection with portfolio management activities. This increase was offset by a 21% decrease in FCE enrollments, primarily driven by portfolio management and the impact of our transition to a new marketing framework in mid-2022.*** Revenue from the Alternative Credential Segment decreased $2.9 million, or 3%, primarily due to lower enrollments in coding boot camp offerings, partially offset by 18% growth in FCE enrollments in executive education offerings.

242. The 3Q23 Press Release provided an updated Business Outlook, which stated, in relevant part:

> Business Outlook
>
> The company updated its guidance provided on August 8, 2023 as follows:
>
> • ***Revenue to range from $965 million to $990 million, representing growth of 1.5% at the midpoint, including expected revenue of $80 million in the fourth quarter related to portfolio management activities;***
>
> • ***Net loss to range from $250 million to $240 million; and***
>
> • Adjusted EBITDA to range from $165 million to $175 million, representing growth of 36% at the midpoint.

243. On that same day, 2U also held a conference call to discuss its quarterly financial results. Defendant Paucek told investors:

> Revenue for the third quarter came in at $229.7 million with adjusted EBITDA of $28.6 million. These results did not meet our expectations, given weaker demand in our coding boot camps and continued enrollment softness in some of our higher-priced degree programs. We also know we need to strengthen our balance sheet and are working on it diligently, and Paul will talk about that more in a moment.
>
> The market for degree programs has changed over the years and some programs have become more difficult to run due to their pricing or other factors. Where we can't work with our partners to

make adjustments to improve these factors, we will consider whether exiting the program makes sense to improve the health of our overall portfolio long term. For example, we believe that affordability is key to the Degree segment's success going forward. But as you know, program pricing is a decision that rests entirely with the university partner. So we've taken a hard look at our portfolio through that lens.

In that light, in the third quarter, we mutually agreed to transition out of certain degree programs with a client where we believe the long-term future of those particular programs was challenged. This resulted in revenue in the quarter of $26 million related to the fee the university agreed to pay in connection with the transition.

Early in the fourth quarter, we also mutually agreed to transition out of certain degree programs with USC. This will result in revenue in the fourth quarter of approximately $40 million. We thank USC for the role they've had in helping us build our company, but ultimately, the programs we agreed to exit no longer align with our platform strategy. Paul will dig into how these transactions show up in our results and impact our outlook.

***

244. Defendant Lalljie added:

As we discussed on our last earnings call, part of our platform strategy involves rotating our degree portfolio away from degree programs that no longer align with our business objectives and replace these programs with degree offerings that better align with our strategy, like our flex degrees. They have favorable cash flow profiles due to lower capital expenditure requirements and lower marketing expense given our ability to leverage the edX platform for marketing. Many of our planned 80-plus 2024 launches are programs that we're taking over from another provider. These programs are already operational, so we expect them to reach steady state cash generation more quickly than degree programs where we're starting from scratch.

245. During the Q&A session of the conference call, Keen Fai Tong of Goldman Sachs Group, Inc., asked, "how much do fees from these program shutdowns compare with the initial capital invested and foregone future revenue streams?"

246. Defendant Lalljie answered:

> George, a couple of things here. I think the way to look at it is where the program is from a revenue projection perspective. And it is often used as a starting point to begin that discussion with our partners mutually agree on what that ending number is going to be. Oftentimes, the fees would cover near-term revenue as well as any capitalized cost that we may have had as part of the production of that program.

247. Defendant Paucek followed up saying:

> What I would add is these are very positive transactions for the business. And if you think about what's happening in the degree business is this rotation to things that we think will be much more affordable and will sell better on the platform, I guess the way I would think about it from a comp standpoint is like Chipotle doesn't get paid to shut down the stores that it wants to shut down. And we do feel like we're doing that very effectively now.

248. On this news, 2U's share price fell $1.35, or 56.72% to close at $1.03 on November 10, 2023, thereby injuring investors.

B. February 12, 2024

249. On February 14, 2024, the relevant truth and foreseeable risks concealed by the Defendants' misconduct and their false representations and omissions during the Class Period were fully revealed and/or materialized. On that date, after the close of trading, 2U disclosed that due to the Company's debt, "there is substantial doubt about its ability to continue as a going concern." The Company further disclosed it recognized $88.0 million of revenue from portfolio management activities (*i.e.*, fees negotiated for early partnership contract termination) in the year and it would assume another $10 million from such activities in the first quarter of 2024 and at least $15 million in full-year 2024. The Company also announced its full year revenue of $946 million, significantly missing the Company's guidance of $965 million to $990 million, and revealed Degree Program Segment revenue, Alternative Credential Segment Revenue, and total revenue, all decreased 2%

year over year. The Company also issued full year 2024 guidance, estimating revenue would continue to decline from $946 million, to $805 million to $815 million.

250. Specifically, on February 12, 2024, 2U, the Company issued a press release announcing its results for the quarter and year ended December 31, 2023 (the "FY23 Press Release"). The FY23 Press Release stated in relevant part:

> **Results for Full-Year 2023 compared to Full-Year 2022**
>
> • ***Revenue decreased 2% to $946.0 million***
>
> • ***Degree Program Segment revenue decreased 2% to $561.0 million***
>
> • ***Alternative Credential Segment revenue decreased 2% to $384.9 million***
>
> • Net loss was $317.6 million, or $3.93 per share, and includes non-cash impairment charges of $196.9 million
>
> * * *
>
> **Discussion of 2023 Results**
>
> Revenue for the quarter totaled $255.7 million, an 8% increase from $236.0 million in the fourth quarter of 2022. Revenue from the Degree Program Segment increased $26.4 million, or 19%, and ***included $54.6 million of revenue recognized from the mutually negotiated exit of certain degree programs, also referred to as portfolio management activities.***
>
> * * *
>
> Revenue for the year totaled $946.0 million, a 2% decrease from $963.1 million in 2022. Revenue from the Degree Program Segment decreased $10.6 million, or 2%, and ***included $88.0 million of revenue recognized from portfolio management activities.***
>
> * * *
>
> Liquidity and Cash Flow
>
> As of December 31, 2023, the company's cash, cash equivalents, and restricted cash totaled $73.4 million, a decrease of $109.2

> million from $182.6 million as of December 31, 2022. As of December 31, 2023, the company's total debt was $904.7 million, including borrowings of $40.0 million under the company's revolving credit facility.
>
> * * *
>
> The company expects that if it does not amend or refinance its term loan, or raise capital to reduce its debt in the short term, and in the event the obligations under its term loan accelerate or come due within twelve months from the date of its financial statement issuance in accordance with its current terms, ***there is substantial doubt about its ability to continue as a going concern.***

251. On this shocking news, 2U's share price fell $0.55 or 59.33%, to close at $0.37 on February 13, 2024, on unusually heavy trading volume.

VIII. SCIENTER ALLEGATIONS

252. As alleged herein, Defendants acted with scienter since Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding 2U, their control over, and/or receipt and/or modification of 2U's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning 2U, participated in the fraudulent scheme alleged herein.

A. Defendants Had Actual Knowledge That 2U Had Overstated the Stability of Its Relationships with Partner Institutions

1. Defendants' Own Statements Support a Strong Inference of Scienter

253. During the Class Period, Defendants Paucek and Lalljie spoke at length about the strength of 2U's relationships with its Partner Institutions. For example, Defendant Paucek assured analysts on November 7, 2022, "We've got really stable partnerships across the board. Partners are in a good place." On analyst calls throughout the Class Period, Defendants Paucek and Lalljie discussed partner attrition, and the process of contract negotiations and renegotiations of existing contracts.

254. Defendant Paucek told the investors that 2U would regularly evaluate its portfolio of offerings, and at times, exit programs that no longer were a fit. He reassured investors by saying that 2U managed its portfolio in this manner for a few years now and noting that they had discussed some of those exits in the past. He indicated that 2U would continue to evaluate programs to meet evolving student needs.

255. Specifically, he told investors that "Of note for the quarter, we expected to sunset some programs in Q2, which would have resulted in significant additional revenue in the quarter. These were pushed into the back half of the year."

256. Defendant Paucek gave further background to investors about the portfolio management activities:

> We've had some of these in the first 6 months of [2023]. We will continue to have them. So unfortunately, we had multiple universities in play on this, and it's a shift. But we feel very confident in our ability to manage them overall, and we like the mix that we're moving to.

257. Defendant Lalljie added, "As part of our portfolio management efforts, in the second quarter, we expected to finalize agreements to sunset certain programs. However, these

were pushed into the second half of the year. These agreements would have generated revenue in the Degree Program Segment in the second quarter."

258. Defendants Paucek and Lalljie statements demonstrate that they knew that 2U's contracts with its Partner Institutions lacked stability and 2U expected to sunset some programs in the second quarter of 2023. They also knew that this would have resulted in significant additional revenue in that quarter. This was undoubtedly a reference to USC and the other undisclosed partner's termination fees that we disclosed in November 2023. Accordingly, in August 2023, Defendants Paucek and Lalljie knew 2U was losing an important customer. Because the termination was initially expected to occur in the second quarter of 2023, negotiations for ending such material contracts were ongoing through 2023 and possibly began in 2022.

259. Taken together, these statements, statements made on other conference calls and in 2U's SEC filings, as detailed in Section VI, raise a strong inference that Defendants Paucek and Lalljie knew or were reckless in not knowing about the false and misleading nature of their statements when they made them. By repeatedly insisting—notably in response to analysts' questions addressing the very issue—that 2U's relationships with its partners were stable, their contractual terms lasted for over a decade, and any sunsetting or portfolio management activities were done in the normal course of business over the years, Defendants Paucek and Lalljie either: (1) knew that 2U was unable to sustain relationships with key universities and organizations and as a result certain degree programs would be cancelled; or (2) were reckless in not knowing or investigating that this was the case. Under either scenario, there is a strong inference that Defendants made statements about the strength and stability of the relationships with their Partner Institutions with scienter.

2. Defendants Had Access to and Monitored Developments with 2U's Partner Institutions

260. According to multiple former employees, Defendants Paucek and Lalljie had access to and closely monitored 2U's enrollment and marketing data as well as feedback from Partner Institutions. As described in more detail in Section V.E., FEs-1 through 4 prepared reports on respective enrollment and marketing activities, which were shared with higher-ups and ultimately with Defendant Paucek on a consolidated level. FE-2 reported that all this data was available in real-time and derived from 2U's Salesforce application.

261. That Paucek was aware of issues with USC was corroborated by FE-5. In response to the Wall Street Journal Investigation into 2U and USC's partnership, Defendant Paucek hosted a town hall for the employees who worked on USC programs. Employees shared their experiences with students and USC's administrators and detailed the issues they faced.

262. That Paucek was aware of issues raised by Partner Institutions is also supported by the fact that 2U formed two leadership counsels when it acquired edX—the University Leadership Counsel and the University Partner Advisory Counsel ("UPAC"). As discussed above, these counsels, the UPAC in particular, were formed to ensure that 2U can regularly and routinely confer with key leaders from across the combined 2U and edX partner network. Combined, both groups represented leaders from over 50 academic institutions globally. Andrew Hermalyn, 2U's President of Partnerships, was the company's representative to the boards. Multiple former employees stated that Hermalyn reported to Paucek and it is likely that he shared feedback with Mr. Paucek from these routine meetings. This feedback would have included complaints about 2U, such as cost, program quality, and marketing efforts, that are described above and that the Counsel shared with the Chronicle of Higher Education shortly after the Class Period.

B. Defendants' Stock Sales During the Class Period Support a Strong Inference of Scienter

263. During the Class Period, Defendants Paucek, Lalljie, and Norden realized substantial benefits from their personal disposal of 2U common stock while they continued to conceal material facts from investors concerning the effect of 2U's transition to a platform company, and the instability of 2U's contractual agreements with Partner Institutions, among other things.

264. Throughout the Class Period, Defendant Paucek sold approximately 205,000 shares at prices ranging from $2.36 per share to $20.93 per share to realize proceeds of approximately $1,400,000.

265. Throughout the Class Period, Defendant Lalljie sold approximately 141,000 shares at prices ranging from $1.17 per share to $20.93 per share to realize proceeds of approximately $780,000.

266. Throughout the Class Period, Defendant Norden sold approximately 41,000 shares at prices ranging from $1.17 per share to $20.93 per share to realize proceeds of approximately $225,000.

267. Accordingly, Defendants Paucek, Lalljie, and Norden's behavior in entering into the Class Period stock sales further raises a strong inference of scienter.

C. The Timing and Circumstances of Defendant Paucek's Resignation Supports a Strong Inference of Scienter

268. The timing and circumstances of Defendant Paucek's resignation, a co-founder and key executive at 2U involved in every aspect of 2U's operations and planning are highly suspicious. That his resignation is temporally connect to the first alleged corrective disclosure of

2U's "portfolio management activities" and the impact of 2U's transition to a platform company further supports this inference.

269. Specifically, on November 16, 2023, just one week after the 3Q23 Press Release—2U issued a press release announcing Defendant Paucek's abrupt resignation. Defendant Paucek's position as the longtime CEO and co-founder and his presentations to investors on 2U's financial status and projections, when combined his sudden departure, at which point 2U was forced to admit that it was parting ways with one of its oldest and largest clients, supports a strong inference of scienter

270. Although Paucek resigned from his position, he would receive a $20,000 consulting fee monthly between December 2023 and April 2025.

D. Partner Institutions Are Critical to 2U's Core Operations

271. Defendants' knowledge that the transition to a platform company would lead to a decrease in full course equivalent enrollments and cause issues with its Partner Institutions can be inferred because these facts were critical to 2U's operations and the success of the Company's earnings during the Class Period.

272. Moreover, 2U operates on a revenue-sharing model, wherein the universities with which 2U partners pay 2U a significant percentage—up to 60%—of the tuition and fees that students who enroll in the partnership programs pay to obtain their degrees.

273. Thus, 2U's continued ability to maintain its contractual relationships with universities and its ability to transition to a platform company raises a strong inference that the Defendants knew, or were deliberately reckless in not knowing or disregarding, that their statements regarding the stability of 2U's contractual relationships with its Partner Institutions, as set forth in Section VI, were materially false or misleading when made.

E. The edX Platform Was Critical to 2U's Core Operations

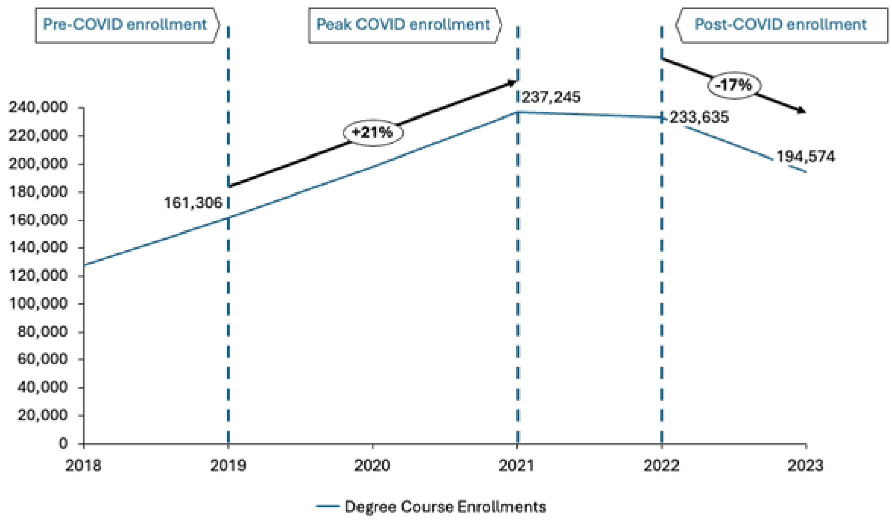
274. The $800 million acquisition of edX was critical to 2U's core operations and enabled 2U's shift in its business model. Defendants discussed the realignment plans throughout the Class Period and how the acquisition would enable 2U to transition from primarily a graduate degree-based Online Platform Manager (OPM) company to a comprehensive online education platform company.

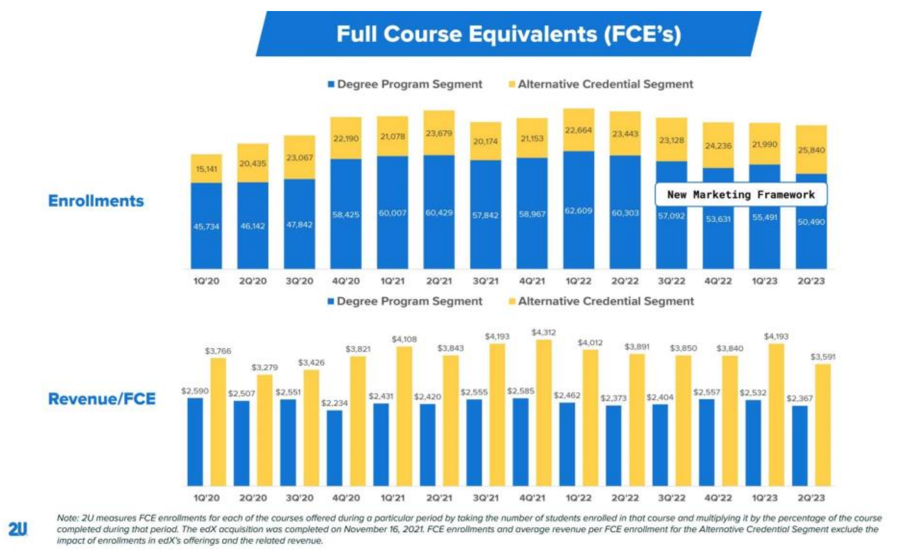
275. The shift was an attempt to adapt to changing market demands and diversify its revenue streams. Throughout the Class Period 2U told investors that, by acquiring edX it was positioning itself as a more comprehensive and competitive player in the online education market, addressing key challenges in its business model and opening new growth opportunities.

276. Defendants also told investors throughout the Class Period, among other things, that utilizing edX, 2U would: (1) expand its reach and user base; (2) gain access to a trusted brand that would attract more students to its paid programs; (3) reduce market costs through the "free-to-degree" strategy; (4) allow 2U to expand internationally; and (5) diversify its offerings.

277. Thus, the Company's ability to effectively utilize edX was critical to 2U's financial success and raises a strong inference that the Defendants knew, or were deliberately reckless in not knowing or disregarding, that their statements regarding edX, *supra* Section VI, were materially false or misleading when made.

278. There is also a strong inference that Defendants knew or were deliberately reckless in not knowing that the transition to a platform company would lead to a decrease in full course equivalent enrollments. As the following charts created by 2U demonstrate, the adoption of edX and the new marketing framework caused a drop in course enrollments, Full Course Equivalents (FCS's), and revenue.





F. Corporate Scienter Allegations

279. Further, 2U knowingly and/or with deliberate recklessness made, controlled, or had ultimate authority over the materially false and/or misleading statements and omissions alleged herein based on the fact that the Individual Defendants and 2U's senior management, knew and/or were deliberately reckless in not knowing or disregarding that 2U's statements set forth in Section VII were materially false and/or misleading, and/or omitted material facts at the times that such statements were made, as alleged *supra* Section VII. Each of the Individual Defendants and other

senior management was among the most senior employees of the Company throughout the Class Period, was acting within the scope of their authority, and was a member of the 2U's senior management. Their scienter may therefore be imputed to 2U.

IX. RELIANCE.

280. The market for 2U's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, 2U's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired 2U's securities relying upon the integrity of the market price of the Company's securities and market information relating to 2U and have been damaged thereby.

281. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of 2U's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. The statements and omissions were materially false and/or misleading because they failed to disclose material adverse information and/or misrepresented the truth about 2U's business, operations, and prospects as alleged herein.

X. CLASS ACTION ALLEGATIONS

282. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all persons and entities that purchased or otherwise acquired 2U securities between February 9, 2022 and February 12, 2024, inclusive and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families

and their legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

283. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, 2U's shares actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least hundreds or thousands of members in the proposed Class. Millions of 2U shares were traded publicly during the Class Period on the NASDAQ. Record owners and other members of the Class may be identified from records maintained by 2U or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

284. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law as complained of herein.

285. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

286. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by Defendants' acts as alleged herein;

b. whether the Defendants omitted and/or misrepresented material facts;

c. whether the Defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

d. whether the Defendants knew or deliberately disregarded that their statements were false and misleading;

e. whether the price of 2U securities were artificially inflated; and

f. to what extent the members of the Class have sustained damages and the proper measure of damages.

287. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

288. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about 2U's financial well-being and prospects. These material misrepresentations and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the 2U's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members

of the Class purchasing 2U's securities at artificially inflated prices, thus causing the damages complained of herein when the truth was revealed.

XI. NO STATUTORY SAFE HARBOR

289. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the material misrepresentations and omissions alleged in this Complaint.

290. To the extent certain of the statements alleged to be misleading or inaccurate may be characterized as forward looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

291. The Defendants are also liable for any false or misleading "forward-looking statements" pleaded because, at the time each "forward-looking statement" was made, the speaker knew the "forward-looking statement" was false or misleading and the "forward-looking statement" was authorized and/or approved by an executive officer of 2U who knew that the "forward-looking statement" was false. Alternatively, none of the historic or present-tense statements made by the Defendants were assumptions underlying or relating to any plan, projection, or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by the Defendants expressly related to or stated to be dependent on those historic or present-tense statements when made.

XII. CAUSES OF ACTION

COUNT I

For Violations of §10(b) of the Exchange Act and Rule 10b-5

292. Lead Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

293. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase 2U's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each defendant, took the actions set forth herein.

294. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for 2U's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

295. Defendants, individually and in concert, directly and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about 2U's financial well-being and prospects, as specified herein.

296. Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of 2U's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about 2U and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

297. Each of the Individual Defendants' primary liability and controlling person liability arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

298. Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein or acted with reckless disregard for the truth in that they failed to

ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing 2U's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

299. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of 2U's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Lead Plaintiff and the other members of the Class acquired 2U's securities during the Class Period at artificially high prices and were damaged thereby.

300. At the time of said misrepresentations and/or omissions, Lead Plaintiff and other members of the Class were ignorant of their falsity and believed them to be true. Had Lead Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that 2U was experiencing, which were not disclosed by Defendants, Lead Plaintiff and other members of the Class would not have purchased or otherwise acquired their 2U securities, or, if

they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

301. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

302. As a direct and proximate result of Defendants' wrongful conduct, Lead Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

COUNT II

For Violations of §20(a) of the Exchange Act Against Defendants Paucek, Lalljie, and Norden

303. Lead Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

304. Defendants Paucek, Lalljie, and Norden acted as controlling persons of 2U within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions and their ownership and contractual rights, participation in, and/or awareness of the Company's operations and intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Lead Plaintiff contends are false and misleading. Defendants Paucek, Lalljie, and Norden were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

305. In particular, Defendants Paucek, Lalljie, and Norden had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

306. As set forth above, 2U and Defendants Paucek, Lalljie, and Norden each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their position as controlling persons, Defendants Paucek, Lalljie, and Norden are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Lead Plaintiff prays for relief judgement, as follows:

A. Determining that this action is a proper class action, certifying Lead Plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure, and appointing Lead Plaintiff's counsel as class counsel;

B. Awarding compensatory damages in favor of Lead Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to proven at trial, including interest thereon.

C. Awarding Lead Plaintiff and members of the Class their reasonable costs and expenses incurred in this action, including attorneys' fees and expert fees;

D. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Lead Plaintiff hereby demands a trial by jury.

Dated: December 5, 2024

LEVI & KORSINSKY, LLP

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